

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2236 SCOMM 88: HOUSE TELECOMMUNICATIONS TASK FORCE, 1993

787

FCC Docket 83-1376

Ex Parte Presentation

The ARC Plan

Explanation Of The ARC Plan

**Prepared By
ALASCOM, INC.**

EXPLANATION OF THE ARC PLAN

The FCC has applied Price Cap regulation to AT&T based on a finding that Price Cap would afford the nation's MTS/WATS ratepayers the benefits of efficiency and economy incentives which are not present in rate of return regulation. Alascom's proposed Alaska Revenue Cap (ARC) Plan was designed to assure ratepayers those same benefits when applied to Alascom's portion of the jointly provided network. Accordingly, Alascom's ARC Plan is intended to mirror the AT&T Price Cap.

Under Price Cap, rate of return regulation is replaced by a formula known as a price cap index. That index establishes the upper limit of AT&T's rates, i.e., a price cap. The underlying purpose of the FCC's price cap plan for AT&T is to benefit consumers, increase AT&T's incentive for efficiency, and promote innovation and competition (CC Docket No. 87-313, Report and Order and Second Further Notice of Proposed Rulemaking, released April 17, 1989). To answer the attacks on the AT&T-Alascom joint services arrangement that it is rate of return based and therefore promotes inefficiency, Alascom proposes the ARC Plan in order to achieve benefits to the public in the Alascom portion of the network exactly matching those benefits to be derived by the AT&T Price Cap in the rest of the network. This will be accomplished by having the amounts AT&T pays Alascom computed under the ARC formula, which mirrors the AT&T Price Cap.

The way in which this mirroring will be accomplished will be as follows:

1. The starting point of AT&T's price cap index is AT&T's rates on December 31, 1988. Those rates were based on AT&T's revenue requirements for 1988 -- the last full year AT&T was subject to rate of return regulation. Those revenue requirements included the amount AT&T paid Alascom for 1988.

Consequently, the starting point for Alascom's ARC Plan is Alascom's 1988 interstate revenue requirement. We assume that the ARC Plan will go into effect January 1, 1991. One special adjustment, relating to changes in investment, is required to bring Alascom to the actual beginning date of payment in accordance with the ARC Plan. This is explained in paragraph 5, below.

2. AT&T capped rates are determined year by year by an index which is applied to the capped rates for the preceding year. That index has several factors:

- a. The net change in the GNP-PI (Gross National Product - Price Index).
- b. A 3.0 percent reduction based on the FCC's assessment of AT&T's productivity.
- c. Exogenous changes including revisions to Parts 32 (accounting) and 36 (jurisdictional separations of the FCC's Rules and Regulations, GAAP changes, and other material judicial, executive or legislative actions beyond the control of AT&T.
- d. Changes in LEC access rates.

The result of this computation is a percent figure which is applied to increase or decrease the prior year's capped rates to establish the later year's capped rates. For example, effective July 1, 1989, AT&T's Price Cap Index was changed to 97.5, representing a 2.5% reduction in AT&T's rate cap as compared with December 31, 1988 rates.¹²

Under the ARC Plan, the first step would be to apply the AT&T Price Cap Index to AT&T's prior year's payments to Alascom. In other words, Alascom's shareholders are willing to pay the price for any inability by Alascom to be as productive as AT&T.

3. The third step relates to changes in traffic. In essence, AT&T's allowable revenue equals its capped rates times its traffic. Under Price Caps, a major component of incentive regulation is that AT&T benefits from increased traffic, and therefore, has an incentive to spend money to increase its traffic, as long as the net effect is favorable.

Correspondingly, Alascom proposes that under ARC it derive a benefit -- or suffer a detriment -- equal to the value of 50% of the increase or decrease in Southbound

¹² Actually, AT&T has a separate price cap index for each of three "Baskets." The figure quoted above is for Basket One, Residence and Small Business Basket. This is the Basket with most of Alascom's traffic, and Alascom proposes that this Basket be employed in the ARC Plan.

interstate MTS/WATS traffic each year as compared to the base year. We propose that Alascom's fortunes hinge on Southbound traffic changes because Alascom has more to say about Southbound than Northbound demand. This approach would leave the benefit of all of the Northbound and half the Southbound growth for AT&T, and it would also provide Alascom with the same kind of incentive to work for traffic growth that AT&T has to expand total traffic. In the absence of such an incentive, Alascom could find itself with an incentive actually to restrain growth because it would have no basis from which to defray the cost of increases in traffic.

Thus, the second step in the ARC Plan computation of AT&T payments to Alascom would be an adjustment up or down equal to the value of 50% of the increase or decrease in Southbound traffic compared with the base year.

4. The third and final step in Alascom's ARC Plan does not mirror AT&T's Price Cap. It does, however, benefit AT&T's ratepayers. In this step, the sum of the payments established by steps one and two, above, would be reduced by subtracting MTS/WATS payments made to Alascom by interexchange carriers other than AT&T. Such carriers are currently taking service from Alascom in increasing amounts, thereby sharing with AT&T the costs of Alaska transport. Thus, one of AT&T's severest criticisms of

the existing system is already being answered. AT&T would pay the amount remaining after this subtraction has been accomplished.

5. There remains Alascom's explanation of the special adjustment to be made to Alascom's 1988 interstate revenue requirement to establish the amount of payment to be made in the first year of actual operation of the ARC Plan. For the purpose of this discussion, we assume that this first year will be calendar 1991.

This adjustment is a one-time net increase in annual revenue requirements resulting from Alascom's investment in two major facilities in the post-1988 period -- (a) the new fiber optic undersea cable between Pacific City, Oregon and Seward, Alaska, and related facilities, and (b) the Aurora II satellite --from which would be subtracted the reduction in revenue requirements from retiring and depreciating existing facilities and from termination of leases no longer needed. The net annual increase would be approximately \$7 million.

This adjustment is necessary to place Alascom in roughly the same position for revenue cap regulation as AT&T was for price cap regulation. The two Alascom investments here in question are essential to the provision of service to Alaska if Alaskan ratepayers are not to become second class citizens. Both investments are subject to FCC review, and the Aurora II

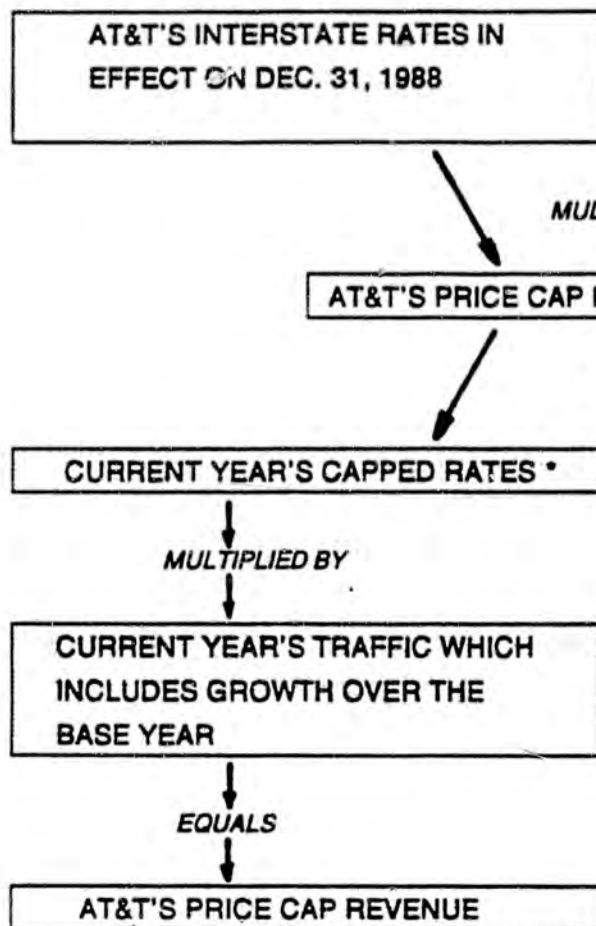
construction permit has already been granted. The investments represent unique, one-time major changes to the Alascom network which, from a technological standpoint, are consistent with changes in the lower 48. Other investment will be incurred without changing the ARC base. These improvements will be necessary if Alascom is to achieve incentive payments reflecting growth. Their revenue requirements must be included in any workable revenue cap.¹³

AT&T began a price cap regime with its network newly rebuilt. In the several years preceding 1989, it replaced its analog network with a digital network including a nationwide fiber optic network. Alascom's timing has necessarily been somewhat different. This one-time ARC adjustment will place Alascom in a starting position comparable to AT&T's.

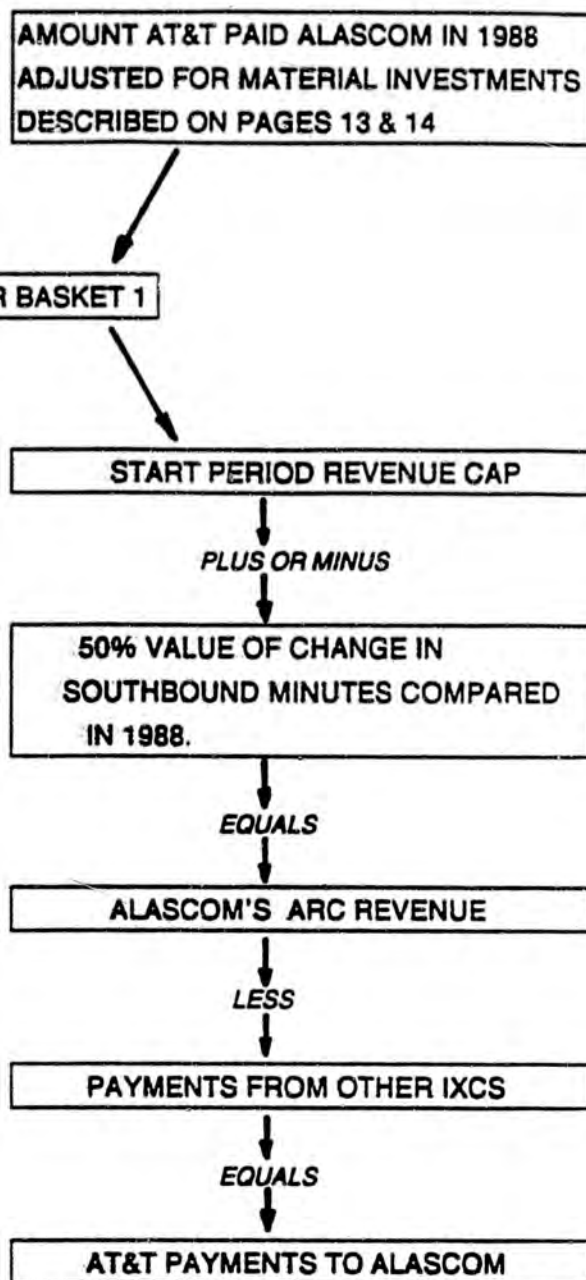
The chart on the following page illustrates the manner in which Alascom's ARC Plan mirrors AT&T's Price Cap.

¹³ For simplicity, we assume that both investments will be made by December 31, 1990.

THE AT&T PRICE CAP PLAN



ALASCOM'S ARC PLAN



*OR ACTUAL RATES IF LOWER

FCC Docket 83-1376

Ex Parte Presentation

The ARC Plan

Questions

**Prepared By
ALASCOM, INC.**

QUESTIONS

Q. Other parties have alleged that the Joint Services Agreement provides no incentive to Alascom to operate efficiently and leaves Alascom on a "gravy train". Under ARC, what incentives does Alascom have to reduce costs and be more efficient?

A. Alascom has all the incentives of carriers providing service in the lower 48. The ARC plan provides an incentive to Alascom to operate more efficiently by capping its settlements and allowing it to share in Southbound revenue growth. The ARC plan sets a firm dollar amount on the settlement base. Thus cost savings are a determinable incentive. The risks of losses fall on Alascom's stockholders not ratepayers. As a final matter it is important to note that ARC, like Price Caps for AT&T, shifts Alascom from rate of return regulation with its perceived inefficiencies to an alternative regulatory system the FCC has endorsed and ordered.

Q. Parties have alleged that Alascom has overbuilt its network and is operationally inefficient. How can this be corrected?

A. While parties have leveled these allegations for years Alascom has challenged these parties to document the allegations. No documentation has been proffered. Moreover, in a study commissioned by the APUC Alascom was found to be efficient and had not overbuilt its network. Also, as a result of competitive bidding AT&T recently chose Alascom to provide facilities in Alaska for the FTS2000 network, a further demonstration of Alascom's efficiency. The network built by Alascom was designed to meet carrier of last resort responsibilities. Less costly facilities may be available but would not meet the responsibilities levied on Alascom. Alascom continues to upgrade its facilities as requirements, technologies, and economics justify.

Q. Why should AT&T continue to pay Alascom a "shortfall" and thereby subsidize the high costs found in Alaska?

A. First of all, AT&T is not experiencing a shortfall. Its costs, including the cost of Alaskan service, are fully covered by AT&T's rates. The implementation of price cap regulation did not change that. Any savings that AT&T achieves under price caps or by shifting costs to the state jurisdiction would simply be reflected in the form of increased earnings for AT&T's shareholders.

Alaska LECs are already shared by other interexchange carriers.

Q. Are there other examples that exhibit the same revenue characteristics as Alaska? Are these long term or short term characteristics?

A. Many of the existing rate schedules offered by AT&T do not cover the cost of providing that service. These rate plans generate "shortfalls" that AT&T has justified as reasonable and necessary expenses. Under the ARC plan the revenues from AT&T/Alascom MTS/WATS service will make an increasing contribution to associated access charges and AT&T can continue to abide by its commitment to nationwide averaged rates. Any changes to this commitment will discriminate against Alaska and would justify similar discriminations against selected markets in the lower 48.

Q. How can the ARC plan meet AT&T's objective of sharing Alascom's cost of service to and from Alaska with other interexchange carriers?

A. The ARC plan recognizes revenues received by Alascom from other carriers in the form of a direct dollar for dollar offset of Alascom's ARC payments from AT&T. Interexchange carriers currently are purchasing service from Alascom in

increasing amounts and, thereby sharing in Alascom's costs. Thus, AT&T's desire to have other carriers share in the cost of serving Alaska is already being addressed. Under the ARC plan in 1989, assuming AT&T's 1988 total MTS/WATS minutes, the alleged cost "burden" to AT&T would have been about .04 cents per minute. In addition a large portion of Alaska related costs are access charges which all carriers pay and include a contribution to high cost payments received by Alaska local exchange companies.

Q. How does Alascom justify the long link between the lower 48 and Alaska, a circumstance unique to Alaska?

A. The "long link" is a fact of historical development. AT&T chose not to purchase the military system that was to become the backbone of the Alaska public switched network. AT&T chose to treat Alaska as an international location not a state. Regardless of who serves Alaska the "long link" will exist. It is caused by geography. The transport of traffic to and from Alaska requires facilities that are not present in the lower 48 domestic network. These facilities include satellite capacity for rural communities which are the only economically efficient means of serving such areas. The distances between exchanges in Alaska is a geographical fact, but it should not be the basis upon which Alaska is treated differently from the rest of the U.S.

ATTACHMENT 2

1 1 JOINT BOARD OF THE PUBLIC UTILITIES COMMISSION
2 AND FEDERAL COMMUNICATIONS COMMISSION

3 IN RE:

4 Hearing of Joint Board :
5 Held via Teleconference and :
6 Videoconference Concerning :
7 the Entry of AT&T into the :
8 Telecommunications Industry :
9 in the State of Alaska :
10 _____ :

11 HEARING PROCEEDINGS
12
13
14

15 Thursday, July 1, 1993
16 9:30 a.m.
17 Anchorage, Alaska
18
19
20
21
22
23
24

25 REPORTED BY:
Joy S. Brauer, RPR-CP, Notary Public

1 minutes. Certainly we welcome all of the written
2 testimony one can provide.

3 COMMISSIONER KNOWLES: Very fine,
4 Commissioner Barrett. If each person offering testimony
5 would give us your name, your address, and if you are
6 representing a group, if you would please tell us what
7 group that is. Good morning.

8 MS. HUFF: Thank you. Good morning
9 Commissioner Knowles, representatives of both the State,
10 as well as the Federal Commission. My name is Barbara
11 Huff. I'm a business representative for Teamsters Local
12 959 and I welcome the opportunity to speak before the two
13 groups this morning. Besides representing members of the
14 Alascom work force, of which we represent 520 employees
15 within that particular industry, we also represent
16 members that work statewide through Alaska.

17 I personally have been a resident of this
18 great State of Alaska for the past 21 years. I am here
19 today to address our concern with this Joint Board
20 dismembering a company, or potentially dismembering, and
21 threatening the jobs of these Alaskans when both have
22 fully and efficiently served the State for more than 20
23 years. I would like to know what great good for the
24 people of Alaska will come of this proceeding, and more
25 practically, who will guarantee that the supposed

1 benefits to be achieved from this marketing restructuring
2 will in fact be delivered to this state. Unless the
3 benefits are real and the delivery, again, certain, there
4 would seem to be no reason to depart from the current
5 competitive market structure, which has brought Alaska
6 into the forefront of more than telecommunications.

7 I personally am not a telecommunications
8 expert and I'm not here representing that particular
9 industry, but I would hope that my questions and concerns
10 that I raise here will then be simple enough that this
11 Board, jointly, would be able to respond to.

12 My first question, what is wrong with the
13 current situation? Apparently AT&T doesn't like the
14 arrangement with Alascom, even though in 1980 they
15 jointly entered into this arrangement. But Alaskan
16 Alaskans have seemed to have served and been served well
17 by this particular arrangement. A statewide modern
18 satellite telecommunications network has been created,
19 provided telecommunications infrastructure which has
20 benefited every sector, state, federal, private, public,
21 as well as the commercial, education and social aspects
22 of this state. A second generation satellite designed
23 specifically for Alaska service has been launched.
24 Fiberoptic facilities linking Alaska with the rest of the
25 nation has also been put into place, improving both the

1- quality, as well as the availability of service to this
2 great state. And during this period, competition on both
3 sides, the instate, as well as interstate levels
4 developed and grew to the point where MCI, a major
5 interstate competitive carrier, has now directly entered
6 the Alaskan market.

7 My observations on the positive improvements
8 made in the last decade and on the quality of service
9 provided are certainly biased. I represent the employees
10 that work for Alascom. But, those men and women have
11 been responsible for constructing and currently
12 maintaining the services that are provided to the
13 citizens of this community, not only in Alaska, but
14 across this great state. They're Alaskans who, with the
15 other employees of Alascom, dedicate their professional
16 careers to providing the highest possible quality and I
17 believe a recent incident which maybe many of you locally
18 have read about in the newspaper might bring a lot of
19 this a little clearer to mind.

20 On June 3rd, a Homer resident, Alice Whitt,
21 and her husband Ray Sinclair, were visiting friends in
22 Anchorage. Ms. Whitt attempted to call her sister in
23 Idaho and erroneously dialed Vermont's 802 area code
24 instead of her sister's prefix 208 in Idaho. The phone
25 was picked up and she heard a gasping breath, a weak

1 voice saying, "Help me, help me, help me." Ms. Whitt
2 could tell the voice was not her sister's. What she
3 couldn't know was the voice belonged to a 90 year old
4 woman in a ski resort in Rutland, Vermont who was
5 suffering a major heart attack. Ms. Whitt told the woman
6 to hang up and call 911 but the woman probably
7 understandably continued to ask for help.

8 Mr. Sinclair used a second line in the home
9 where they called an Alascom operator. With the phone at
10 each ear she was put through to the Alascom supervisor,
11 Ms. Garrard, who was able to contact paramedic
12 dispatchers in Rutland. Everybody stayed on the line
13 while that call went from Alaska to Vermont, back to
14 Alaska through Massachusetts and back to Vermont again.
15 The call lasted about 30 minutes and as a result of the
16 caring services of those employees at Alascom, as well as
17 the citizens in the community here and in Vermont, the
18 woman was taken to the hospital and was released
19 successfully several days later.

20 Given this kind of professionalism and
21 dedication by the Alascom work force, I am more than a
22 little skeptical when I hear allegations concerning
23 inefficiency. In the first place, much of this name
24 calling appears to originate from Alascom's competitors
25 or others who clearly stand to gain commercially by this

4
1 sort of thing. And the second place, no one has ever
2 stepped forward with any proof of such so-called
3 inefficiencies.

4 The members of Local 959 I can assure you
5 are not and never have been inefficient. We have
6 operated a competitive interstate environment since the
7 early 1980s. For the last two years, we have been
8 competing instate as well, mostly against GCI, a non
9 union company. After two years of such competition,
10 Alascom has more than 80 percent of the interstate market
11 and continues to gain shares through this annually.

12 Apparently outside these hearing halls where
13 people are voting with their dollars, they are voting for
14 Alascom and not in a small manner, but based on the skill
15 and the efficiencies of our members working for the
16 company of Alascom.

17 We have also watched Alascom reduce its non
18 represented and management work force over the past
19 several years, as well as some very tough bargaining that
20 we have also incurred at the table, in effect to and I
21 believe successfully reduce the rates whereby freezing
22 wages and benefits for the employees that do work for
23 Alascom, the company has attempted to deal with
24 competitive requirements on a real time basis, almost
25 always, through programs such as early retirement and

1 attrition. These minimize not only the disruption within
2 the work force, but also the economic impact on this
3 community, probably more so in Anchorage, as well as
4 Juneau, where a lot of these lost or potentially lost
5 jobs will occur.

6 So what's wrong with this picture, other
7 than AT&T and GCI, don't like it. A convincing case for
8 the need to make changes has not been made, or if it has,
9 it hasn't been brought to our attention. Until it is,
10 tampering with this fully functioning system and the jobs
11 it provides makes little sense but if change is to be
12 mandated by this Joint Board, a second question arises.

13 What are the additional benefits do the
14 people of Alaska? Who is going to guarantee their
15 delivery? Rates, I believe, are at the heart of this
16 matter, particularly for rural Alaskans whose dependency
17 on telecommunications is great and whose access to cash
18 economy is of minimal. AT&T has conspicuously avoided
19 any suggestion of efficiency they will achieve, and the
20 money they will save will result in reduced interstate
21 long distant rates. Very likely, this money will stay
22 with the shareholders or those members of AT&T not of
23 Alaska.

24 In so far as I can determine, interstate
25 rates will be subjected to upward cost pressures and will

1 eventually increase, sooner more likely than later.
2 These upward pressures have been described by many of the
3 parties on record over the past year. And yet the Joint
4 Board does not seem to be -- the Joint Board does not
5 seem to be particularly interested nor concerned about
6 these particular effects on the people, even though
7 revenue requirement neutrality, which was mentioned here
8 earlier this morning, which I understand to mean don't
9 lower interstate rates by raising intrastate rates, is
10 one of the Joint Board's basic principles.

11 COMMISSIONER KNOWLES: Excuse me, Barbara,
12 are you --

13 MS. HUFF: I'm about finished. The second
14 part of the question seems to be the most troubling. Who
15 will ensure that your decision will actually produce
16 beneficial results? If for the sake of argument you're
17 wrong, who's going back to pick up the pieces? The
18 economy of Alaska is not overly prosperous at this
19 moment, or probably in the any near future. Disruptions
20 of basic infrastructure, especially telecommunications,
21 will not only create dislocation in this industry but
22 could adversely affect others. It can damage the social
23 and educational framework of the State, particularly in
24 remote areas where education and health services are
25 heavily dependent on telecommunications for effective

1 delivery to rural residence.

2 In closing, I guess I'd like to sum this up
3 by saying the Joint Board, if you do nothing,
4 unfortunately AT&T would not be happy but intrastate
5 rates would remain unchanged, intrastate rates would
6 remain stable, competition in Alaska would continue to
7 flourish and hundreds of dedicated, efficient Alaskans
8 would continue to provide service in Alaska to Alaskans.
9 Since you aren't here, I can't ask all of you to go home
10 and think about this, but I can ask you to at least think
11 about it.

12 I thank you for your time and we will also
13 be submitting written comments before July 12th.

14 COMMISSIONER KNOWLES: Thank you very much.

15 COMMISSIONER BARRETT: Thank you Ms. Huff
16 Susan I'd like to ask you to do something. In view of
17 the fact that Ms. Huff went about 13 minutes and we
18 started late, I would appreciate it if you could keep the
19 time within the five minutes or less constraint.

20 COMMISSIONER KNOWLES: Yes, sir.

21 COMMISSIONER BARRETT: Susan, would you keep
22 the time for me? Susan?

23 COMMISSIONER KNOWLES: I will. You are
24 welcome to jump in, as well, Commissioner Barrett. We do
25 have others who have signed up from our initial list. I

1 Mr. Huhndorf. For the benefit of my Federal and State
2 colleagues, Mr. Huhndorf did give me some written
3 comments which I will be sure you receive copies of. Mr.
4 Anderson did the same, although he primarily read his
5 comments. Those will be provided to you, as well.

6 The next person who is signed up to testify
7 is Jeff silver man.

8 MR. SILVERMAN: Good morning, Commissioner
9 Knowles and Chairman Barrett.

10 COMMISSIONER BARRETT: Commissioner Knowles,
11 Commissioner Knowles?

12 COMMISSIONER KNOWLES: Yes?

13 COMMISSIONER BARRETT: I need to raise a
14 question, because apparently, Mr. Silverman, we have Miss
15 Julie Kitka here also, you know, and I need to kind of
16 understand which one's going to testify. We have her
17 here in Washington.

18 COMMISSIONER KNOWLES: I think this is a
19 matter between the two of them.

20 MR. SILVERMAN: I would yield to Julie.

21 COMMISSIONER BARRETT: Well why don't I do
22 this, since you're going to do that, why don't I let Mr.
23 Silverman make his remarks for two and a half minutes and
24 she can make hers for two and a half minutes.

25 MR. SILVERMAN: I'll go ahead and read what

1 I have prepared. My name is Jeff Silverman.

2 COMMISSIONER BARRETT: Well, no, no, no, no,
3 no, no, no, hold on one minute. Why don't you summarize
4 that the best you can unless you going to stay under the
5 time limit. I don't need two people from the same
6 organization making remarks.

7 MR. SILVERMAN: That's fine. I'll stay well
8 within the time limit.

9 COMMISSIONER BARRETT: Fine, thank you.

10 MR. SILVERMAN: My name is Jeff Silverman.

11 I am the Public Information Director for the Alaska
12 Federation of Natives which represents the concerns of
13 Alaska's 85,00 Eskimos, Indians and Aleuts. Our reason
14 for attending this hearing and providing these comments
15 is simple. The statewide native communities would like
16 to see that affordable communication for rural Alaskans
17 will continue. We are concerned that rural Alaskans,
18 native and non native, businesses, schools, hospitals and
19 private citizens will be left out of the development
20 investment and realignment that is to come.

21 We live in a time of transition. Changes
22 keep coming and nowhere in Alaska are they more dramatic
23 than in Alaska's villages. The telecommunications
24 revolution is the latest and probably the most profound
25 change to come. We should not forget that as late as the

1 mid 1970s many bush areas had no telephone service at
2 all. Alaska's telecommunication boon connected our far-
3 flung communities and in many ways has helped to bridge
4 the gulf between urban and rural Alaska.

5 Telecommunications has made it possible for
6 even the most remote village to tune into the rest of the
7 world. Distance education has helped to link students
8 with teachers and professors hundreds of miles away. In
9 a high cost state like Alaska, this connection will be
10 important as we begin to deal with the issue of future
11 diminishing state revenues.

12 The key to the maintenance of the
13 telecommunications system that has developed in Alaska is
14 affordability. People in rural Alaska are extremely
15 vulnerable to changes in the government programs and
16 appropriations policies. They live on the razor's edge,
17 so to speak.

18 Let me illustrate. According to the AFN
19 status reports on Alaska natives, A Call For Action,
20 which is a study commissioned by AFN in 1989 and updated
21 in 1992, federal expenditures in rural Alaska are heavily
22 skewed towards funds for essential community services and
23 facilities and away from payments to individuals. In
24 Western Alaska, the grants and contracts for governmental
25 programs reached \$3,922 per capita, while direct payments

1 to individuals, mainly social security and other
2 retirement benefits were substantially lower at \$874 per
3 capita. Thus, changes in government policy and funding
4 are felt quickly and on a communitywide basis, not
5 absorbed only by a small sector of the population, as
6 often happens in the cities.

7 The high cost of living in rural Alaska is
8 well documented. In A Call To Action, it was shown that
9 the overall cost of living in villages in 1990 was
10 between 126 and 145 percent higher than in Anchorage,
11 while the cost of certain essentials like fuel were an
12 incredible 476 percent higher than in Anchorage. When
13 effective income is reduced, cash is scarce, it becomes
14 increasingly difficult for communities to support
15 expensive utilities like power and water and
16 communications.

17 These communications -- these utilities are
18 essential. In the rural areas, the stakes are higher
19 because there is a greater dependence on a smaller set of
20 alternatives. We are greatly worried that if villages
21 can't afford this kind of service, that one by one they
22 will be shut off. The health, social and economic
23 ramifications would be extreme, to say the least. It
24 would represent a big step backward after two decades of
25 great strides made in telecommunications in rural Alaska.

1 We know that change is inevitable and it is
2 coming to Alaska's telecommunication system. We also
3 know that modern technology is expensive, especially in
4 rural Alaska. If only those with the ability to pay have
5 the service in the future, it would only be a handful of
6 customers. Affordability is the key issue now and as we
7 move forward into this decade. Thank you.

8 COMMISSIONER KNOWLES: Thank you very much,
9 Mr. Silverman.

10 COMMISSIONER BARRETT: Thank you very much.
11 Thank you, Mr. Silverman. Commissioner Knowles, we're
12 going to have Miss Julie Kitka, also from the Alaska
13 Federation here also make some comments so we can take
14 those two organizations together. Ms. Kitka.

15 MS. KITKA: Mr. Chairman, good afternoon.
16 My name is Julie Kitka, and I'm the President of Alaska
17 Native Corporation. The reason why Mr. Silverman was
18 planning on testifying is we weren't aware that it would
19 be possible for me to attend and -- (inaudible).

20 COMMISSIONER KNOWLES: Excuse me. Could
21 you -- could you please speak up a bit or --

22 COMMISSIONER BARRETT: Move your chair over.
23 Move your chair over, if you want to.

24 COMMISSIONER KNOWLES: We're out of camera
25 range, however. There we go.

1 COMMISSIONER BARRETT: We'll get it
2 straight.

3 COMMISSIONER KNOWLES: I'm glad technical
4 problems can be shared.

5 COMMISSIONER BARRETT: We're fine.

6 COMMISSIONER KNOWLES: Thank you.

7 MS. KITKA: Like I said, I'm the President
8 of the Alaska Federation of Natives. AFN is a political
9 umbrella organization for the native people in the State
10 of Alaska. We came to existence in 1966, primarily to
11 focus on obtaining a land claims settlement for our
12 people. As to the involvement in the communications
13 issues surrounding rural communications and helping our
14 villages come into the modern world, has been extensive
15 since 1966. We are very concerned with what's going on
16 here for a couple reasons and -- written testimony which
17 Mr. Silverman submitted for the record has been --
18 (inaudible) -- but to highlight some of the.

19 The first one is the notice for the hearing
20 was very, very inadequate. Our communities are very
21 far-flung. This is not a time of year which is conducive
22 for a hearing. Many of our people are out at the fish
23 camps, getting ready for commercial fishing. Our
24 organization as an organization does not even schedule
25 any meetings, regular board or anything through this

1 period of time because it is such a bad time for our
2 people, our native people to get together to talk about
3 these issues. So I'd really like to urge you that if you
4 do have the ability to extend the time to try to
5 accommodate the people in the rural areas -- (inaudible).
6 Summertime is just not the time to -- (inaudible). You
7 can talk to any federal agency that deals in rural Alaska
8 and they will tell you the same thing that summertime the
9 people are taking care of their families and their own
10 livelihood, as far as the fish camps and stuff. It's
11 just not a time for public policy discussions -- where
12 people's input is desired on that --

13 The second thing is the information that we
14 have been privy to, as far as what's been submitted as
15 far as the plan doesn't have enough detail for us to
16 determine whether or not the plans are going to actually
17 be beneficial to rural Alaska. For example, the issue of
18 satellite and who is going to put up the satellite,
19 which -- the current satellite when its usefulness
20 expires. Those type of details on that concern us
21 because it's very hard to evaluate plans if you don't
22 have the details to know how it's going to affect the
23 rural areas, but I can tell you that communications is
24 very vital to our people out in the villages.

25 One example which is unique in the State of

1 Alaska is our health care system. We have community
2 health aides in all our villages. They provide
3 approximately 80 percent of our direct medical care to
4 our people in the villages because there's not doctors
5 and nurses or physician assistants in the villages.
6 These community health aides, they are in daily contact
7 via phone to doctors who treat our people either for
8 gunshot, gunshot accidents -- health issues or whatever.
9 That has become a vital link in our health care system is
10 to access through telephone on that.

11 In the past, it was radio. In the past we
12 had to make do with what limited communications we had.
13 So communications is really integrated into the rural
14 areas and we are hopeful that communications can be of
15 benefit to our people, both in the health care system to
16 provide better and faster access to doctors and diagnosis
17 of conditions, because of the size of our communities are
18 too small to ever have the critical mass where you'd have
19 these professions in the medical field to be ever able to
20 live there. They're just too small, not a large enough
21 group, critical mass.

22 Another example where communications has to
23 play a vital role, as far as our people are concerned, is
24 in the education area. Right now, study after study
25 shows our people, especially in the villages are getting

1 a substandard education by every measure of academic
2 achievement that is listed, and we think that
3 communications can improve that.

4 Once again, the size of our communities
5 being very small, thus not having critical mass to have
6 instructors, science teachers that teach science, math
7 teachers that teach math are things where communications
8 fill the gap in there and there has been demonstrations
9 in the State which have been very successful. We want to
10 see, as technology develops and communication does, we
11 don't want to be shut out for reasons of not being able
12 to afford it and the issue of our remoteness and lack of
13 the critical mass means it's not a profitable environment
14 for a business that the bottom line is their number one
15 objective.

16 We see that in the present Administration's
17 discussions on health care where managed competition
18 won't work in Alaska. The rural conditions will not
19 support managed competition, and they shifted over to
20 managed cooperation as a way to possibly deal with the
21 uniqueness of the remoteness and the small populations --

22 I very much urge you to take into account
23 concerns from the rural areas and make sure that they are
24 included in any further proposals as they go forward and
25 you ask the different companies that are presenting

1 things to you to provide enough detail so that we know
2 these things.

3 I think that if the rural areas are priced
4 out of the communications formats that there will be a
5 lot of harm to our communities and I just think that that
6 is, you know, we're U.S. citizens like everybody else on
7 that, that we should have the opportunity to -- that some
8 of the larger communities have, too.

9 That's some of the points I want to bring up
10 and we'll be participating and be glad to provide
11 additional information as it comes along. We have lots
12 of studies and reports on income levels, the fact that
13 our people are below the poverty line on many factors,
14 we're in the middle of a population boom. Our population
15 is expected to double every 23 years, just you name it.
16 All the factors are stacked against us on that. So I
17 just urge you to keep that in account as you go forward,
18 and the uniqueness, and I will wrap up and thank you for
19 the time.

20 COMMISSIONER BARRETT: Thank you very much,
21 Ms. Kitka. And I would like for you to, if you want to
22 supplement the record with some of the data you talked
23 about in terms of employment and population, we would
24 appreciate it very much

25 Back to you, Commissioner Knowles.

1 the next time. Thank you very kindly.

2 Can we continue, Commissioner Knowles?

3 COMMISSIONER KNOWLES: We certainly may.

4 I'd like to ask Willie Hensley to testify next and Former
5 Representative Boucher will be next on the list.

6 MR. HENSLEY: Thank you, Madamn Chairman. I
7 appreciate the opportunity to testify. I might also add
8 that Senator Adams, my friend and relative who also
9 occupies the State Senate seat I used to have from up
10 north and out west would like to have been here to make
11 comments. He has seen my testimony. He identifies with
12 it and he asked me to state that.

3
13 I am Willie ly Hensley and I am president of
14 Nana Regional Corporation. We have about 8,000
15 shareholders, primarily located in Northwest Alaska in 11
16 villages, as well as other locations around the State. I
17 am a Director of Alascom and have been so since the
18 1970s. My testimony would be no different were I not a
19 Director of Alascom. I feel that the company has made an
20 excellent effort over the years to provide modern
21 communications to the smallest villages and its directors
22 come from all regions of our vast state.

23 As a native Alaskan, I've seen the growth
24 and improvement of communications in Alaska almost since
25 the days of the sled dog mail carriers. Our small

1 communities are no longer the isolated back waters of
2 America that they used to be. Unlike earlier times, we
3 are tied to the rest of Alaska as a consequence of modern
4 communications.

5 Alaska, because of its vast size and varied
6 cultures, from the Yupik in the southwest part of Alaska
7 to the Inalik of the north and western Alaska to the
8 Athabaskans of the great interior region, the Aleuts of
9 the Chain, Aleutian Chain, and the Tlingit and Haida of
10 of the southeast of Alaska, all are now tuned in together
11 with the population centers of our state. This has not
12 always been the case.

13 I am not impressed, quite frankly, with
14 timing and notice of the hearing. This issue will have
15 such an impact on the future of rural communities that
16 every effort should have been made to advertise the
17 hearings and descriptions of the proposals made known
18 throughout the State. This is the worst possible time to
19 convene a teleconference. Everybody in rural Alaska and
20 many in urban Alaska are out frantically trying to earn
21 enough to survive throughout the winter or to enjoy the
22 short summer months. As busy a commissioners may be, on
23 an issue of this import, physical presence is important
24 to get the full flavor of people's opinions on this
25 issue.

1 Rural Alaska has some of the most difficult
2 and intransigent problems in the country. People in the
3 villages are in a economic twilight zone where the
4 economy is part hunting and fishing for family
5 consumption and part modern. We have the highest
6 unemployment rate in the nation, the highest cost of
7 living, the coldest weather, the worst sanitary
8 conditions, serious health problems due to lack of water
9 and sanitary sewer facilities, and some of the highest
10 rates of suicide and alcohol addiction. Yet there have
11 been major improvements in the last 20 years. These
12 problems these 200 communities face is that there is a
13 danger of falling back because these improvements in
14 housing, communications, education facilities, electric
15 generation and community facilities is due to the State
16 support for oil earnings. The next five or ten years
17 will see the reduction in income to support important
18 services like modern day communications. Rural Alaska is
19 simply too vast, too costly, too impoverished and too
20 sparsely populated to provide modern communications
21 without some assistance from your agency.

22 I would urge you to pay special
23 consideration to the need for affordable universal
24 service for rural Alaskans.

25 Thank you, Madam Chairman.

ATTACHMENT 3

**THE APUC'S CONSULTANTS HAVE CONSISTENTLY FOUND
THAT THE COST OF SERVING RURAL ALASKA IS VERY HIGH**

As the intrastate interexchange carrier-of-last-resort, Alascom is the only long-distance carrier which must provide intrastate service to rural Alaska communities. Over the last several years, the Alaska Public Utilities Commission (APUC) has conducted proceedings in which the issue of the cost of serving rural Alaska has arisen. These cases included: 1) U-87-25, in which the APUC investigated Alascom's costs of retail service; 2) R-86-2, in which the APUC investigated GCI's proposal for implementing intrastate competition; 3) R-90-1, in which the APUC adopted regulations implementing competition; and 4) U-90-68, in which the APUC set Alascom's wholesale rates. In each case, the APUC hired the firm Ben Johnson Associates, Inc., as its independent consultant. The firm performed its own studies of Alascom's costs. The consultants concluded that the costs of serving rural Alaska were very high, and substantially higher than the costs of serving urban Alaska locations.

On November 14, 1988, Ben Johnson Associates filed its first cost study as part of U-87-25, a proceeding which concerned the revision of Alascom's retail rates. Johnson analyzed the cost of virtually all routes on the Alascom network. He found that "calls originating and terminating in urban locations have significantly lower cost than those between rural locations." Ben Johnson Associates, The Economic Costs of Long Distance Telecommunications Service in Alaska, Nov. 14, 1988, p. 15. Johnson categorized Alascom's high density locations as "urban"¹ and its low density locations

¹ "Urban" included locations within five geographic areas: Anchorage, Fairbanks, Juneau, the Kenai Peninsula and the Matanuska Susitna Valley. Id., p. 14.

as "rural." Johnson developed Alascom's cost of providing service between urban locations, between urban and rural locations, and between two rural locations. He found that Alascom's cost of serving the "rural" locations was double that of serving the "urban" locations:

Table 2
Alascom, Inc.
Costs Per Minute:
Urban vs. Rural
Total Costs

Category	Short-Run		Long-Run	
	Average ¹	Marginal	Average ¹	Marginal
Urban-Urban	\$.2721	\$.0981	\$.2676	\$.0935
Urban-Rural	.3459	.1132	.3384	.1101
Rural-Rural	.5356	.1715	.5510	.1688

¹Includes LEC NTS costs.

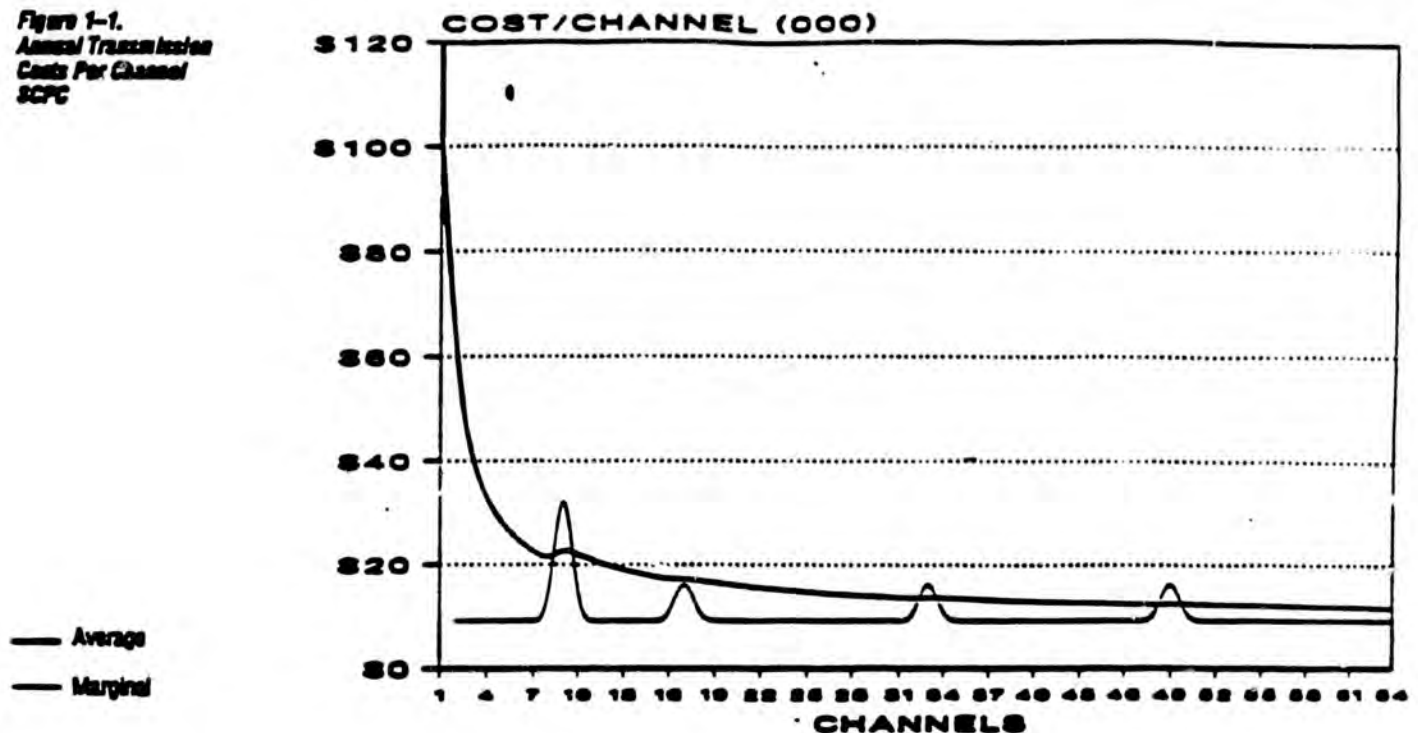
(Ben Johnson Associates, The Economic Costs of Long-Distance Telecommunications Service in Alaska, Nov. 14, 1988, p. 15).²

In his study, Johnson analyzed Alascom's costs of providing facilities to Alaska locations. He found that a transmission facility in a small isolated community is much more expensive (on a per-customer) basis than a facility in Anchorage which can serve many. The more traffic volume in an area, the more "channels" can be built into each facility, and the lower the cost per channel. Johnson showed that the transmission costs per channel ranged from approximately \$40 a channel for a three-channel facility to \$16 a channel for a sixty-four-channel facility:

² As used in the table, "average costs" account for "one-time" expenses such as setting up a transmission facility as well as the expenses of routing a call once the basic equipment is in place. "Marginal costs" account for only the latter expenses. The greatest disparity is in average costs.

Annual Transmission Costs Per Channel

Figure 1-1.
Annual Transmission
Costs Per Channel
SCPC



Ben Johnson Associates, The Economic Costs of Long Distance Telecommunications Service in Alaska, Nov. 14, 1988, p. 17.³

Johnson's graph shows that when the number of channels falls below eight to twelve, costs increase suddenly. Urban Alaska falls to the right of the "turning point" of the curve while rural Alaska generally falls to the left. As Johnson commented:

³ Johnson provided similar charts showing the cost curves for technologies other than single carrier per channel (SCPC) satellite systems. The cost curves were similar to the SCPC curve.

[A] large fraction of Alascom's tributary links ... currently require fewer than 10 channels. Only a handful of links require more than 100 channels. The largest link in the state only has about 1,500 channels -- a number which is relatively modest when compared with most states. Even the Company's interswitch transport routes, which carry traffic from all over the state between the Anchorage, Fairbanks, and Lena Point toll centers have relatively few channels.

Testimony of Ben Johnson, U-87-25, dated Nov. 14, 1988, p. 111.

By contrast, in the more populous contiguous 48 states, many rural communities support enough channels to fall to the right of the "turning point."⁴ Because the slope of the curve is relatively flat once more than eight to twelve channels are in use, the distinction between urban and rural service costs is much more pronounced in Alaska than it is in other states. Testimony of Ben Johnson, U-87-25, dated Nov. 14, 1988, pp. 111-113.⁵

Next, on January 30, 1990, Johnson filed a recommendation in R-86-2, a proceeding in which the APUC examined how to implement competition in long-

⁴ "It must be recognized that the volume of traffic between Anchorage and Fairbanks is only a small fraction of the traffic on routes generally considered 'high-density' in other parts of the country...." Testimony of Ben Johnson, U-87-25, dated Nov. 14, 1988, p. 113.

⁵ The APUC later recognized the importance of the "significant break" in the cost curve. "[A] drop in the number of channels from 40 to 20 causes a much smaller increase in cost per channel than a drop from 12 to 6 channels." R-90-1(6), dated Sept. 6, 1990, p. 6). Thus, a farming community in Arkansas which can support twenty channels is much less costly to serve than an isolated Alaskan fishing village which can support only six.

distance telephone service within Alaska.⁶ To develop a plan that harmonized competition and universal telephone service, Johnson analyzed the data that his firm had developed in U-87-25. He reaffirmed that there were wide disparities in the cost of serving urban and rural Alaska locations largely because of the cost characteristics of the transmission facilities:

Many of the transmission costs are fixed investments that are invariant with the number of channels or traffic volumes: obtaining rights-of-way (where necessary), site preparation, construction of shelters for satellite earth stations, installation of the power system, construction of microwave towers, etc. Once facilities have been installed to serve a particular route, most of these costs are fixed (and many are also sunk, or irretrievable). Even some of the operating and maintenance costs are partly fixed with respect to output, since telephone traffic causes little deterioration of the facilities (unlike a typical manufacturing process).

Thus the average cost per channel typically declines rapidly as the number of channels on a route increases, because the fixed costs are spread over a larger number of channels. Furthermore, within the range where average costs are declining (which often covers the entire range of demand) the marginal cost to add a channel to the system is less than the average cost per channel. This means that enlarging the system actually lowers the per-channel cost of the existing capacity, assuming demand is not exceeded.

Ben Johnson Associates, Implementing Intrastate Toll Competition in Alaska, Jan. 30, 1990, pp. 16-17.

⁶ GCI had filed a petition asking the APUC to adopt regulations implementing intrastate interexchange competition. The APUC hired Ben Johnson Associates to examine how it could authorize competition while also ensure universal toll and local telephone service at reasonable rates.

Johnson noted that the low traffic densities, remoteness of the locations and extreme climatic conditions made rural Alaska very costly to serve:

... [T]he low traffic densities in the latter areas, as well as the remoteness of the towns and villages and the often extreme climatic conditions, cause the cost of serving the rural locations to be relatively high on a per minute basis. For instance, cost analyses conducted by our firm indicate that whereas the average costs on some high-density urban routes is as low as \$0.5 per minute, some intrastate rural routes have average costs in excess of \$1.10 per minute. The combination of low traffic densities and high costs makes the rural locations less attractive to competitors than the high-density routes with their much lower per-minute costs.

Ben Johnson Associates, Implementing Intrastate Toll Competition in Alaska, Jan. 30, 1990, p. 9.

To preserve universal service, Johnson recommended that the Commission use a unique and experimental scheme of weighted access charges to levelize the cost of providing toll service between urban and rural areas. Ben Johnson Associates, Implementing Intrastate Toll Competition in Alaska, Jan. 30, 1990, p. 11. By weighting access charges so that the access cost of serving urban areas was higher, and cost of serving rural areas was lower, the APUC would ease the cost burden of serving rural customers.

After the state legislature authorized intrastate competition, the APUC conducted a rulemaking case to set guidelines for competition, R-90-1. The APUC affirmed the conclusions that Johnson had reached in R-86-2 and adopted his firm's weighted access charge proposal:

[T]he Commission is convinced that the introduction of competition in the provision of intrastate interexchange service presents risks to the price and quality of service to rural areas of Alaska where traffic densities are low and the cost of providing service is high. These risks have been thoroughly documented Weighting of bulk bill access charges partially levelizes the profitability of urban and rural toll routes.

R-90-1(6), dated Sept. 6, 1990, pp. 27-28. When Johnson calculated the final weights for the APUC, he set urban access charges at 2.5 times the level of rural access charges. Ben Johnson Associates, Development of Bulk Bill Weights, Feb. 11, 1991, p. 12, Table 6.

In U-90-68, Ben Johnson Associates conducted another cost study. This second study, which compared Alascom's cost of wholesale⁷ service in rural areas to that of wholesale service in urban areas, further documented the high cost of serving rural Alaska. The study categorized Alaskan high, medium and low density routes as "urban," "intermediate," and "rural," respectively. Johnson found that Alascom's provision of "transport",⁸ the major component of wholesale service, was sixteen times more expensive in rural areas than in urban areas:

⁷ Alascom "wholesales" some of its capacity to interexchange competitors which resell it to their customers.

⁸ "Transport" is the function of carrying a call along a path from where it exits the caller's local exchange network to where it enters the receiver's local exchange system.

Short Run Average Transport Costs

	<u>Cost per-minute</u>
High-Density Competitive (urban)	\$.01645
Low-Density Competitive (intermediate)	\$.02387
Low-Density Non-Competitive (rural)	\$.27151

U-90-48, April 8, 1991, Hearing Exh. BJ-2.

The APUC's independent consultant has concluded repeatedly that the cost of serving rural Alaska are very high, and substantially higher than the cost of serving urban routes. The APUC developed its intrastate regulatory scheme based on the consultant's conclusions.

ATTACHMENT 4

June 25, 1993

TABLE OF CONTENTS

SUMMARY	i
I INTRODUCTION	3
II AT&T'S APPLICATION IS INSUFFICIENT UNDER APPLICABLE COMMISSION RULES	6
A. The Application does not comply with the Rules . . .	6
B. AT&T's failure to disclose virtually all necessary information is an attempt to avoid discussion of the harm its proposal would cause to the public interest	11
III AT&T'S ASSERTIONS CONTRADICT ITS PRIOR REPRESENTATIONS	16
A. AT&T offers circuit forecasts which are inconsistent with its own recent representations concerning Alaska	16
B. AT&T's circuit forecasts are inconsistent with its domestic circuit forecasts and methodologies . . .	22
IV INDEPENDENT ANALYSIS DEMONSTRATES THAT AT&T'S ASSERTIONS CONCERNING TECHNOLOGY ARE WRONG	26
V THE APPLICATION MUST BE DENIED AS UNSUPPORTED AND AN ABUSE OF PROCESS	28
VI CONCLUSION	30
ATTACHMENT A	

SUMMARY

AT&T has filed its 214 Application proposing to build an Alaska network. This Application must be denied because:

1. It is patently incomplete, as AT&T has admitted, and fails to comply with the Commission's Rules for 214 applications, to a degree that no favorable decision can be made, because the application contains almost none of the information necessary for the Commission even to consider it. This failure to disclose required information includes critical items such as actual costs, market effects and jurisdictional cost shifts.
2. To the extent that AT&T's proposal can be deciphered, it would provide no meaningful benefits and in all probability would prove extremely harmful to the public interest, particularly rural Alaskans. AT&T's proposed construction is unnecessary for the provision of any new services and guarantees no quality improvements. It would burden AT&T's ratepayers for no justifiable reason.
3. The Application fails to comply with stated FCC requirements set forth in granting AT&T's Blanket 214 Authorization in August 1992, and generally is inconsistent with the Commission's findings in that Authorization.
4. The only facility which is even vaguely described by AT&T (the undersea cable) cannot be considered reliable or appropriate for Alaska service because it has never been deployed for commercial service and could offer no material service

improvements. Attached to this Petition to Deny is the Declaration of an independent expert in the fields of fiber optic communications and engineering economics who describes numerous technical failings and potential public interest harms of AT&T's proposal.

5. The facilities proposed by AT&T would be duplicative without reasonable purpose, causing unnecessary burdens to ratepayers in Alaska and the lower 48 states, and raising substantial questions about possible cross-subsidization of this experimental facility by regulated revenues, including Alaska intrastate revenues.

6. The absence of substance in AT&T's Application suggests that it was filed only to influence other proceedings, and as such, constitutes an abuse of the Commission's processes. This abuse is exacerbated by the several instances in which AT&T's representations here are inconsistent and have not been reconciled.

'AT&T also says that it intends to provide intrastate telecommunications services within Alaska. AT&T has not sought authority for this from the Alaska Public Utilities Commission ("APUC") and, apparently, will not do so until it has obtained its objectives before the FCC. Communications Daily, April 27, 1993, p. 6.

AT&T's Application must be denied because:

1. It is patently insufficient pursuant to the Commission's Rules for 214 applications to permit any decision to be made, a fact admitted by AT&T, because it lacks virtually all information necessary for the Commission even to consider it.
2. To the extent that AT&T's proposal can be deciphered, it would provide no meaningful benefits and in all probability would prove extremely harmful to the public interest, particularly for rural Alaskans.
3. The Application fails to comply with stated FCC requirements set forth in granting AT&T's Blanket 214 Authorization in August 1992.
4. The only facility which is even vaguely described by AT&T (the undersea cable) cannot be considered reliable or appropriate for Alaska service because it has never been deployed for commercial service and could offer no material service improvements.²
5. The facilities proposed by AT&T would be duplicative without reasonable purpose, causing unnecessary burdens to AT&T's ratepayers.
6. The absence of substance suggests the Application was filed to influence other proceedings, and as such, constitutes an abuse of the Commission's processes.

²Attachment A hereto is the Declaration of Philip J. Freedenberg, an independent expert in the fields of fiber optic communications and engineering economics. Mr. Freedenberg describes many of the technical deficiencies and unsupported assertions of AT&T with respect to the Application.

I INTRODUCTION

Alascom and AT&T have provided interstate MTS-WATS services for Alaska in a Joint Service Arrangement ("JSA") since 1981, as ordered by a Federal-State Joint Board and the Commission.³ AT&T has previously sought to terminate the JSA in the course of CC Docket No. 83-1376 ("the Alaska Joint Board Proceeding"), a proceeding expressly intended to examine the Alaska telecommunications market and to harmonize the policies of rate integration and competition. AT&T is merely repeating that tactic here, having concurrently filed in the Alaska Joint Board proceeding a "Petition to Terminate the Joint Service Arrangement" ("Petition to Terminate"), proposing to implement its so called "Consumer Benefit Plan" ("CBP").⁴

AT&T apparently believes its Application can be disposed of as a matter of company policy and business planning. The Commission, however, must affirmatively determine that this

³NARUC-FCC Separations Manual, 87 FCC 2d 18 (1981); NARUC-FCC Separations Manual, 87 FCC 2d 20 (1981).

⁴Alascom has standing to petition to deny the Application because it would be aggrieved by its grant through diminution or elimination of the JSA, the substantial destabilization of the Alaska market and unmitigated injury through severe costs shifts to Alaska intrastate services, particularly in rural Alaska.

Application would not only advance AT&T's pecuniary interests, but that the interest of the public must be advanced, as well. For it to receive Section 214 authority from the Commission to construct an Alaska network, AT&T must demonstrate, on the record, that:

"...[T]he present and future public convenience and necessity require or will require the construction, or operation, or construction and operation, of such additional or extended line..."⁵

As demonstrated below, the state of the record here makes such determinations impossible. While AT&T has failed to provide virtually all relevant information, the sketchy details gleaned indicate that AT&T's proposal would cause massive jurisdictional cost shifts to Alaskan consumers, potentially crippling both competition and services, with no material improvements of any sort. AT&T would impose unjustified costs on all of its MTS customers, reducing their opportunity to share in efficiencies pursuant to price cap regulation. This Application proposes experimental technology never before deployed commercially, as part of an apparent attempt to use Alaska as a telecommunications laboratory at ratepayer expense. Inherent questions concerning cross-subsidization from interstate and intrastate MTS revenues are conveniently ignored. AT&T's Application would not promote

⁵U.S.C. Section 214(a).

any new services, foster relevant technical advances, or result in reliability or quality improvements. Thus, it fails the statutory scrutiny required by Section 214 of the Communications Act.⁶

The merits, if any, of the CBP and termination of the JSA at AT&T's pleasure will be decided in the Alaska Joint Board proceeding. AT&T's Application must be judged on its own merits, here, and those merits are lacking. This Application is grossly insufficient on its face, as AT&T itself tacitly recognizes, and must be denied on that basis.

⁶See Northeast Cellular Telephone Company, L.P. v. FCC, 897 F 2d 1164 (D. C. Cir. 1990); WAIT Radio v. FCC, 418 F 2d 1153 (D. C. Cir. 1969); FCC v. RCA Communications, Inc., 346 U.S. 86 (1953).

II AT&T'S APPLICATION IS INSUFFICIENT UNDER APPLICABLE COMMISSION RULES

A. The Application does not comply with the Rules

AT&T itself states that:

AT&T cannot provide the specific detail called for by Section 63.01 of the Commission's Rules. (Application, p. 6) While this is one of the few complete and correct assertions in the Application, there is no explanation from AT&T why it has failed to provide the relevant and required information which is available to it, or why the Commission must nevertheless act on AT&T's Application in such a self-created vacuum.

Section 63.01 contains 17 areas of inquiry (30 areas if subparts are counted) which AT&T, or any other dominant carrier, including Alascom, is required to answer in support of its Application. Of those 30 specifically required items, AT&T only has completely answered the following: (a) its name and address, (b) its state of incorporation, (c) the name and address of the AT&T employees to receive correspondence and (d) a statement that AT&T is subject to Section 214. The remaining 26 areas of inquiry, all of which are substantive, are ignored or answered incompletely.

In the order set forth in Section 63.01 (subparts e through q of that Section), AT&T has failed to satisfy the following required showings:

(e) A statement whether the facilities will be used to extend communications into areas not directly served or supplementing existing facilities, and if so, the nature and classification of those communications services.

(f) The points between which proposed facilities would be located.

(g) A description of AT&T's existing facilities between those points specifying the total number of channels provided between major points on each principal route.

(h) A description of the facilities requested by AT&T, including:

(1) the number of channels of each type;

(2) the number of wires, conductors and coaxial units of each type capable of providing additional channels of communication only by the construction of additional facilities;

(3) the types and classes of toll telephone offices to be established..

(i) AT&T's present and estimated future requirements for both the routes of the proposed facilities and for routes from which any rerouting to the proposed facilities is contemplated. Because over 60 domestic channels are to be derived from the proposed construction (the proposed undersea cable alone could carry at least 61,400, and perhaps several times that), AT&T must describe the number of circuits in each group and the estimated

number of circuits in each group to meet the load demands for the next one year, two year or five year period. This should include traffic load trends as indicated by periodic load studies.

(j) A map or sketch showing:

(1) the routes of the proposed project (AT&T showed only a portion of the cable and no more);

(2) type and ownership structure;

(3) facilities to be removed;

(4) cities, towns and villages along the proposed routes, with approximate populations of each and the route mileages between the principal points;

(5) location of important operating centers and repeater or relay points;

(6) state boundary lines through which the routes pass;

(7) topographical features which may require special consideration or entail added cost.

(k) Details of proposed facilities acquisitions, including:

(1) for constructed facilities, a summary of cost estimates separately by Plant Accounts affected, quantities and cost of major materials and the amount of labor and its cost;

(2) for leased facilities, a summary of lease terms, lease arrangements, lessors, lease charges, added equipment costs and other costs;

(3) for purchased facilities, the name of the vendor, descriptions of the properties involved, the contractual arrangements relating to the sale of assets, all costs, including purchase price and related equipment costs, the original cost and the related reserve requirement for depreciation, how these amounts are determined, a statement of such amounts applicable to duplicate or other plant which will be retired by the vendee in the reconstruction of the acquired property or its consolidation with previously owned property, and a statement of estimated annual savings in expenses expected to result.

(4) for facilities acquired or operated other than by lease or purchase, a detailed description of the facilities involved, the terms of the arrangement, added equipment costs and all other costs.

(l) AT&T must show the public need for the proposed facilities.

(m) AT&T's economic justification for the proposal, including estimated added revenues and costs (and the basis therefor) where the proposal involves extension into new territory not presently served by AT&T.

(n) A description of the means by which AT&T and others render services to Alaska now, including reasons why existing facilities are inadequate;

(o) AT&T's proposed tariff charges and regulations.

(p) AT&T's proposed accounting in connection with the proposal (this presumably would include jurisdictional cost separations) and proposed journal entries for purchased facilities together with a full explanation of the way those amounts are determined.

(q) AT&T must state whether authorization of the proposed facilities would be categorically excluded from environmental considerations, and if not, then an environmental assessment would be necessary.

To provide the Commission with a reasoned analysis of the technical assertions in AT&T's Application, Alascom asked Philip J. Freedenberg, an independent expert, to examine it. In his Declaration, which is Attachment A hereto, Mr. Freedenberg briefly summarizes basic information which AT&T omitted, as follows:

Technical details, including technology, systems architecture, number of fibers, available capacity by year, design assumptions, construction phasing, interfaces, redundancy, and telemetry and control.

Market details, including the size and principal characteristics of the market to be addressed, market segmentation, market growth, and market penetration and capture, all by year.

Service details, including plans for market testing of services, proposed service rollout schedules, geographic coverage, and pricing of the proposed services.

Financial details, including the costs of providing services, service revenues by year, and sources of funds.

Contingency plans, including key decision points.

This brief review of the Commission's requirements and basic information that has been omitted demonstrates that AT&T has not even remotely approached the level of detail necessary for a reasoned review of the Application.

- B. AT&T's failure to disclose virtually all necessary information is an attempt to avoid discussion of the harm its proposal would cause to the public interest.

Section 63.01's requirements are not an example of unnecessary regulation here. AT&T's Application consists of eight double-spaced pages and a fragmentary line drawing. AT&T has failed to disclose, detail or estimate, among other things: the costs of its proposal, the locations to be served, the facilities to be built or acquired, the traffic to be carried, the effects upon existing Alaska services, resulting jurisdictional separations shifts and labor issues.

By omitting virtually all information, AT&T has saved itself the trouble of detailing the potential harm its proposal would cause the public interest. The sketchy information provided by AT&T indicates that its proposed construction would exceed \$200 million in facilities investments, simply to reach a small

fraction of Alaskan locations.⁷ This represents approximately 59% of the total existing invested base in Alaska.⁸

Conservatively, AT&T would expect to incur at least \$80 million in annual service costs for that investment.⁹ Therefore, enormous new revenue requirements and expenses would be born by ratepayers with no credible additions or improvements in services.

AT&T suggests that the proposed cable, alone, would cost approximately \$135 million to construct. Such an amount would represent almost 45% of AT&T's entire cable facilities construction budget for the continental United States in 1992.¹⁰ It also represents over 225% of the construction cost of the Alaska Spur.

⁷Undisclosed are AT&T's plans for cable landing licenses, landing facilities and interconnection of landing points to the Alaska and lower 48 networks, all of which would require large additional investments.

⁸See Response to Request for Implementation Plan of Alascom, Inc., filed June 7, 1993, CC Docket No. 83-1376, pp. 28-29.

⁹Ibid. This simply applies the 40% average operating charge which AT&T experiences elsewhere in the country, a highly conservative estimate given the well documented rigors (and therefore expense) of serving Alaska.

¹⁰See Blanket Authorization, Appendix A, infra.

Moreover, AT&T's CBP would be likely to cause significant increases in intrastate revenue requirements for Alaska, for two reasons. First, AT&T proposes to provide intrastate telecommunications services in Alaska. The partial sketch attached to the Application suggests that such intrastate service could include interconnection between Anchorage and Juneau on the proposed undersea cable. If so, this necessarily means that separations procedures would assign a significant portion of the costs of AT&T's network to intrastate revenue requirements, including a substantial portion of the proposed cable.¹¹

Second, AT&T's future circuit estimates indicate that it plans to take over virtually 100% of the Alaska telecommunications market. This would be the combined market shares of Alascom and GCI-MCI. (See Section III A, infra.) Even such a capture of the market by AT&T would occupy only a very small fraction of the proposed cable capacity, leaving large unnecessary costs for recovery elsewhere. As discussed in Section III B, infra., AT&T proposes to construct a cable with capacity of between 61,440 and 307,200 voice circuits which represents between 16 and 82 times the number of circuits used by the Alascom-AT&T JSA in 1992. This removal of interstate traffic

¹¹The Alaska Spur, on the other hand, is exclusively an interstate facility and therefore does not affect intrastate revenue requirements.

from Alascom's remaining operations would cause an increasing spiral of revenue requirements shifts to its intrastate facilities, predominantly in rural Alaska.¹²

There would be no appreciable increase in revenues. In fact, based on AT&T's description of its CBP, rates would be reduced and other providers still taking market shares (at least temporarily). A substantial revenue shortfall from AT&T's CBP is a logical conclusion. Today, all Alaskan communities of 25 or more receive interstate MTS-WATS service at AT&T's integrated rates and national quality levels.¹³ In addition, Alascom's network is fully capable of delivering any services offered by AT&T to any customer in Alaska who requires them. AT&T's proposed network could not conceivably cause any significant traffic

¹²This danger was identified by the State Members of the Alaska Joint Board as the "abandonment shift."

¹³AT&T's commitment to eliminate rate bands 10 and 11 at an annual revenue loss of \$2.9 million is rhetoric only. On April 15, 1993, Alascom filed its tariff submission to implement that rate decrease immediately. AT&T has not done so, and its proposal to build extravagant new facilities (and impose new costs) is not necessary for this rate decrease. Alascom again urges that AT&T promptly respond to Alascom's tariff filing and reduce these rates now. It would seem that if AT&T could lawfully cut those rates after overbuilding its network by an additional \$200 million or more, then to fail to do so now exposes the AT&T proposal as a hollow gesture.

stimulation. It would cut the Alaska "pie" differently, not expand it.¹⁴

Moreover, AT&T's "build it and the people will come" philosophy threatens the public interest. Massive investments in unnecessary capacity can lead to economic injuries, the kinds that Section 63.01 is intended to reveal. As stated by Mr. Freedenberg (Attachment A hereto):

I further conclude that the channel capacity which AT&T's proposed cable would offer would far exceed demand levels. Such mismatches between supply and demand are neither warranted nor desirable in my opinion.

The final results appear to be that AT&T's CBP would precipitate extremely large total cost increases, both in investment and expenses, and large jurisdictional shifts of revenue requirements, with no mitigating improvements in gross revenues or other conditions. Certainly, AT&T has demonstrated nothing to the contrary.

¹⁴With no credible reason to expect a significant increase in total revenues and enormous unused capacity on AT&T's proposed undersea cable, cross-subsidization of AT&T's non-regulated services by interstate and intrastate Alaskan revenues seems inevitable.

III AT&T'S ASSERTIONS CONTRADICT ITS PRIOR REPRESENTATIONS

- A. AT&T offers circuit forecasts which are inconsistent with its own recent representations concerning Alaska.

Even the sparse information provided by AT&T contradicts its own earlier representations.

On January 29, 1992, AT&T and Alascom filed their Joint Application for Section 214 authority for AT&T to acquire the interexchange interstate and international lines and switched services of Alascom.¹⁵ The parties still were prosecuting that application as recently as January 14, 1993, less than three months before AT&T filed the instant Application.

In the Joint Application, the parties sought Commission authority for AT&T to serve Alaska directly through acquisition of enumerated facilities from Alascom, including six DS-3s of capacity of the Alaska Spur undersea fiber optic cable.¹⁶ AT&T

¹⁵This 214 application was filed as a consequence of, and concurrent with, the filing of the Master Agreement in which AT&T, Alascom and Alascom's parent and an affiliate settled differences between them and proposed to reform the Alaska telecommunications market structure, terminating any further need for proceedings before the Alaska Joint Board.

¹⁶That capacity represents 2/3 of the total capacity of the Alaska Spur (six of nine DS-3s). A DS-3 has the uncompressed capacity of 672 equivalent 4khz circuits.

represented that this amount of capacity on the Alaska Spur was sufficient for its current and future requirements. AT&T also sought authority to purchase all of Alascom's interstate MTS-WATS business, representing a majority of southbound traffic from Alaska to the lower 48 states.¹⁷

In the Joint Application, AT&T represented to the Commission that its own southbound Alaskan circuit requirements would grow 34.2% in the first five years (1991-1996), an annual rate of 6.8%. That representation was still in effect in January 1993. But a few weeks later in the instant Application, AT&T represented to the Commission that its circuit requirements on the same route would increase an astounding 83.8% in the first four years (1994-1998), an annual rate of 20.9%.¹⁸

These insupportable AT&T assertions not only contradict its own recent statements, they are at odds with the historic circuit

¹⁷It must be noted that the Joint Application showings of circuit capacities by route, traffic forecasts, lease terms, costs, rates and other information required by Section 63.01, totaled 22 pages. The instant Application is 1/3 of that and lacks virtually all of this information.

¹⁸As known to AT&T, but undisclosed by it, Alascom's actual total number of southbound MTS-WATS circuits in 1991 was 3612 and was 3744 in 1992. Also as known to AT&T, the average annual growth in total message toll interstate circuits for Alascom for 1985 through 1992 was 4.8%. But, AT&T is telling the Commission now that it forecasts an annual average circuit growth of over 20%.

growth of 4.8% per year for the period 1985 through 1992, an actual growth rate known to AT&T.

We emphasize that:

(1) in the Joint Application AT&T circuit estimates included acquisition of Alascom's MTS-WATS business immediately, representing a majority of all southbound traffic. AT&T's baseless new forecasts, which are more than 50% greater than its prior "estimates," assume that "...AT&T will enter the competition for Alaska southbound interstate services with no preexisting customers..."¹⁹ and

(2) the Joint Application was AT&T's representation to the Commission that its acquisition of 6 DS-3s of capacity (4,032 voice circuits) of the Alaska Spur was sufficient to meet its current and future requirements.

Now, AT&T contradicts itself, without explanation, and asserts that the Alaska Spur is "limited" and not acceptable for AT&T's purposes. This has been soundly refuted. (See Declaration of Philip J. Freedenberg, Attachment A hereto) Similarly, there is no plausible explanation by AT&T why the Alaska Spur, which is technically sufficient for all foreseeable purposes (as stated by both Mr. Freedenberg, and earlier by AT&T, and is demonstrated by GCI's acquisition of capacity on it) is "limited" or why an

¹⁹AT&T's Petition to Terminate, p. 10.

additional facility with a minimum of ten times the capacity should be built at ratepayer expense.

A comparison of AT&T's estimates of "current and future circuit requirements from Alaska to the lower 48 states"²⁰ from the instant Application and the Joint Application clearly demonstrates that AT&T now is misleading the Commission.

²⁰Joint Application, p.11; Application, p. 7. The exact projected year varies between the two applications, as shown in the table.

Comparison of AT&T Forecasts²¹

<u>Year</u>	<u>Application</u>	<u>Joint Application</u>	<u>% Difference</u>
1991	--	3720	--
1992	--	3768	--
1993	--	4047	--
1994	4135	4381	(5.6%)
1995	5765	4687	23%
1996	6376	4994	27.7%
1997	6990	5300	31.9%
1998	7601	5607	53.4%

Indeed, even if AT&T's new, baseless circuit estimates are accepted, they do not support the construction of this unnecessary facility. Even if it required 7601 voice circuits, an amount probably exceeding 100% of today's market, then

²¹In the Joint Application, AT&T provided circuit forecasts for 1991, 1992 and 1996. In the Application, AT&T provided circuit forecasts for 1994, 1995 and 1998. For purposes of comparison here, we included a straight line extrapolation of intervening years, i.e. 1993-1995 and 1997-1998 for the Joint Application, and 1996-1997 for the Application. The circuit projections for 1991 and 1992 were estimates in the Joint Application but were subsequently found to be accurate when actual uses were determined. Actual circuits used in 1991 were 3612 and in 1992 were 3744. The circuit forecast set forth for the Application are totals of the three routes described by AT&T in its Application because we assumed that they all would be interstate and AT&T did not provide any clear indication to the contrary. We acknowledge that Mr. Freedenberg did not do this for purposes of conservatism but the ambiguity which causes this difference is AT&T's responsibility.

AT&T still intends to construct a cable with a minimum of eight times the capacity it needs and as much as 40 times the capacity it needs.²² As explained by Mr. Freedenberg, if AT&T constructs a cable with a single fiber optic pair of the technology it describes (a single pair is a minimum), then that cable would have the capacity to carry 61,440 64 kbps voice circuits. If, however, AT&T constructs five fiber optic pairs as it implies,²³ then it would support 307,200 voice channels.

Most disquieting of all from a public interest perspective, AT&T's estimate seems to assume that AT&T will capture virtually all of the Alaska interstate market by 1998. Facilities-based competition, whether from Alascom, General Communication, Inc./MCI, or others, would be a memory.

²²AT&T's lack of candor here is compounded because it asserted to the Alaska Joint Board that Alascom required only a total of three DS-3s of capacity for all interstate MTS-WATS carried jointly by AT&T and Alascom. Comments of American Telephone and Telegraph Company, filed January 5, 1990, pp. 4-5, CC Docket No, 83-1376.

²³Petition to Terminate, p. 8, note 5.

- B. AT&T's circuit forecasts are inconsistent with its domestic circuit forecasts and methodologies.

AT&T annually files its blanket 214 application for authority generally to add and supplement circuits throughout the United States. The most recent blanket application was filed in December 1991 and granted in August 1992.²⁴

In the Blanket Authorization, the Commission describes the traffic forecasting methodologies required of AT&T in its 214 applications:

"Also of concern in our analyses are the applications of mathematical and statistical techniques employed in a valid manner to forecast traffic and circuit needs. The quality of the forecasts themselves is of prime concern."²⁵

"... [W]e expect AT&T to provide backcasts with every future Blanket Application for each of the major market segment models (e.g., MTS, WATS, 800 Service) for the five latest years for which actual data exist. We also requested that AT&T provide actual and forecast data and the results of the comparison forecasts with actuals for the latest five years where actuals have been obtained, i.e., the data for determining the quality of the forecasting models."²⁶

²⁴American Telephone and Telegraph Company and Specified AT&T Communications Companies, File No. W-P-C-6763 (released August 19, 1992) ("Blanket Authorization").

²⁵Blanket Authorization, para. 3.

²⁶Blanket Authorization, para. 5.

"The quality of the forecast is conveniently expressed by a statistical confidence interval at a given confidence level, e.g., 95%, that bounds the forecast quality... From 1986 to 1991, AT&T provided the Commission with backcasts as an aid in evaluating forecasting model performance.²⁷

"In order to determine the quality of the input data and the extent of the models' fault tolerance under real life conditions, we had in past years requested that AT&T provide the Commission with comparisons of one year forecasts and actual data. In response, AT&T had provided comparisons of backcast results and actuals for the latest five years for which actual data existed."²⁸

It is beyond dispute that AT&T has failed even to approach the level of forecasting reliability (e.g. 95%) in the instant Application required of it in other 214 applications. A brief examination of the Commission's findings in the Blanket Authorization again exposes AT&T's failures to offer credible or reliable projections here.

For the continental United states as a whole, the Blanket Authorization shows that AT&T experienced an annual average rate of growth in interstate MTS messages of approximately 5.7% in the period of 1985 to 1990, the most recent actual data provided.²⁹

²⁷Blanket Application, para. 7.

²⁸Blanket Application, para. 9, footnote omitted.

²⁹See Blanket Authorization, Appendix D. This rate of growth probably reflects an increase in 1990 because for that year AT&T included intrastate traffic. Appendix B, note *. The actual circuit

Total interstate message growth for AT&T (combined results for MTS, WATS and 800 Services) was 9.6% per year for the period 1985 to 1990, largely stimulated by recent huge increases in 800 messages not necessarily relevant to Alaska.³⁰

AT&T's growth rates for circuits has been similar. For the period 1985 to 1990, AT&T's annual growth in interstate MTS circuits was approximately 10%, and for all interstate circuits (both MTS and private line), about 11%.³¹ AT&T's circuit growth undoubtedly was inflated because: "In 1989 and 1990 there was a major effort to convert to digital technology primarily through the extensive deployment of fiber optic facilities."³²

As noted above, annual average circuit growth for AT&T-Alascom interstate services was 4.8% during the same period of time. This was, in fact, slower than what AT&T experienced in the lower 48 states. But in any event, neither general domestic experience nor specific Alaska experience remotely justifies AT&T forecasts of circuit increases exceeding 20% per year.

utilizations of Alascom and the forecasts contained in the Joint Application did not include intrastate traffic.

³⁰Blanket Application, Appendix D.

³¹See Blanket Application, Appendix B.

³²Blanket Authorization, para. 18.

And as noted above, in 1990 AT&T asserted to the Joint Board that only 3 DS-3s of capacity (2016 64 voice grade circuits) would be sufficient for all Alascom-AT&T JSA traffic between Alaska and the lower 48 states.³³ For its own Application, AT&T now wants authority to construct between 61,440 and 307,200 64 kbps voice grade circuits.

AT&T already has certified that two thirds of the capacity of the Alaska Spur can meet its present and future circuit requirements for service to Alaska. Utterly unsupported "forecasts" cannot suddenly justify construction of an expensive new facility with a minimum of 15 times that capacity, especially when the Commission requires that:

"Construction requirements depend upon the incremental number of circuits needed to handle expected increases or redistributions of traffic. More efficient use of existing circuits minimizes the need for additional facilities."³⁴

³³Comments of American Telephone and Telegraph Company, filed January 5, pp. 4-5 1990.

³⁴Blanket Authorization, para. 4.

**IV INDEPENDENT ANALYSIS DEMONSTRATES THAT AT&T'S
ASSERTIONS CONCERNING TECHNOLOGY ARE WRONG**

Alascom has asked the independent telecommunications consulting firm of Federal Engineering, Inc. to examine AT&T's technical assertions in the Application, Petition to Terminate and CBP. Attachment A hereto is the Declaration of Philip J. Freedenberg, Federal Engineering's Executive Vice President and a nationally recognized expert in matters relating to fiber optics communications and engineering economics.

Briefly summarized, Mr. Freedenberg shows that AT&T is flatly wrong to claim that it must construct a new fiber optic cable to overcome alleged "limitations" in the Alaska Spur. Mr. Freedenberg concludes that:

"...[I]t is my professional opinion that AT&T has erroneously claimed, as a so-called limitation of the Alaska Spur, voice services and features which are derived exclusively from information processing and not in any way from transport facilities. It is my further opinion that AT&T has erroneously claimed that AT&T is better able to serve the people of Alaska with advanced video and data services than Alascom, when in fact Alascom would be equally capable of employing its systems to provide such services, where these services match the needs of the Alaskan market. Hence the technology of the Alaska Spur has not been shown to pose any practical limitation to telecommunications service delivery in Alaska. I therefore find no justification for AT&T's claim that its proposed system 'transcend[s] the limitations of the Alaska Spur.'

AT&T estimates that its proposed undersea cable will cost about \$135 million, [footnote omitted] while the acquisition cost of the Alaska Spur was under \$60

million. I therefore conclude that AT&T has not offered any evidence that its proposal would constitute an economical method of providing basic, advanced, or wideband telecommunication services to Alaska, and especially not to its vast and sparsely populated bush.

I further conclude that there is no justification for AT&T's derogatory insinuation of technical problems or compromises in the Alaska Spur...

I have independently examined AT&T's claims of superior repeater reliability. I find that AT&T's simplistic approach to reliability prediction is fundamentally flawed because it ignores the type of components employed, their quality level, environmental factors, and other important factors. I further find that AT&T's claims of superior reliability are unverifiable because its components lack field history and are not listed in standard reliability handbooks. I further find that, in the absence of such field reliability history, AT&T's proposed amplifier technology may in fact pose an increased risk of system failure. In view of these findings, I conclude that there is no basis for AT&T's claims of superior repeater reliability...

In sum, the most important difference between AT&T's proposed undersea cable and the Alaska Spur is that AT&T's proposed undersea cable would be constructed with a larger number of fibers. This, in turn, implies that AT&T would have much more voice channel capacity available (at least in several cities) than Alascom. In the absence of a demonstrated need for this capacity, however, AT&T's proposed system may be likened to an expensive and dangerous cure on a fruitless search for a nonexistent disease.

Finally, as the Alaskan consumer is unlikely to benefit from any of the aspects of AT&T's proposal which I have examined, it is my overall professional opinion that AT&T's "Consumer Benefit Plan" is cruelly misnamed.

By way of reinforcing these conclusions, the Commission may wish to note that AT&T, itself, appears to have no quarrel with the quality of the technology incorporated into the Alaska Spur.

Just last December, AT&T acquired from Pacific Telecom Cable, Inc., an additional amount -- 1 DS-3 -- of capacity in the North Pacific Cable. Since the NPC was constructed at the same time as, and with the same technology as, the Alaska Spur, it is apparent that AT&T's technology innuendoes are merely that. Together with the other contradictions noted above, they serve to undermine any credibility that might have attached to its Application.

**V THE APPLICATION MUST BE DENIED AS
UNSUPPORTED AND AN ABUSE OF PROCESS**

The Commission must reach the conclusion that AT&T's Application is an abuse of process. It simply cannot be believed that AT&T "does not know" virtually all of the required information. (Application, pp. 6-7) AT&T has been serving Alaska jointly with Alascom for over 20 years. For that entire period, AT&T has had constant access to Alascom's traffic studies, cost studies and circuit reports, as well as its own. AT&T is the largest and most experienced telecommunications company in history. From this, AT&T has plenary data from which to provide good faith estimates of facilities, costs and market effects. AT&T has not done so.

Only two possible explanations exist: either AT&T's proposal is nothing more than a shot in the dark, without support or

substance at all, or AT&T is well aware of all potential costs, effects and facilities (as routine business planning would suggest) and has affirmatively failed to disclose them. (And similarly, AT&T has failed to reconcile with past inconsistencies.) In either event, the Application must be denied as patently insufficient and found to be an abuse of process. Obviously AT&T intends the Application to be a mechanism, utterly lacking good faith support in its own right, designed to influence the Alaska Joint Board proceeding.

Whatever AT&T's motives, the Application is not what it purports to be, and accordingly, must be denied. To do otherwise would countenance misuse of the Commission's processes, or turn a blind eye to several unreconciled AT&T assertions concerning circuit capacities "required" for Alaska service. This would run the risk of unlawful prejudice of the Alaska Joint Board Proceeding.³⁵ And as a practical matter, the Commission is without legal authority to grant the Application unless there is significant change in the Alaska market structure recommended by the Joint Board and adopted in a final order by the Commission.³⁶

³⁵See Community Broadcasting Company, Inc. v. FCC, 274 F 2d 753 (D. C. Cir. 1960).

³⁶This is so because the Application comprehends termination of the JSA, precipitous changes in jurisdictional cost separations and reformation of AT&T's point of interconnection for Alaska service, all of which were mandated by the full Commission and

VI CONCLUSION

AT&T's Application simply cannot be granted by the Commission. As AT&T admits, it does not supply required information. It is a smokescreen designed only to influence the Alaska Joint Board. As such, this Application is an abuse of the Commission's processes. But even more importantly, this obvious failure by AT&T to supply virtually all relevant information is a calculated effort to avoid addressing the grave public interest dangers posed by the Application: destruction of competition in Alaska telecommunications, substantial jurisdictional cost shifts, cross-subsidization of unregulated services and experiments in technology by captive ratepayers, all with no

cannot (and should not) be undone in a facilities proceeding.

demonstrable benefits of any kind to Alaskans, other consumers or the public interest. Accordingly, AT&T's Application must be denied.

Respectfully submitted,
ALASCOM, INC.

By /s/ Alan Y. Naftalin
Alan Y. Naftalin

Of Counsel

Francis L. Young
Young & Jatlow
2300 N Street, N.W.
Suite 600
Washington, D.C. 20037
(202) 663-9080

By /s/ Charles R. Naftalin
Charles R. Naftalin

Koteen & Naftalin
1150 Connecticut Avenue, N.W.
Washington, D.C. 20036
(202) 467-5700

Its Attorneys

June 25, 1993

ATTACHMENT A

In the Matter of the
Application of

AMERICAN TELEPHONE AND
TELEGRAPH COMPANY

Under § 214(a) of the Communications Act for Authority to create and operate its own network by leasing, purchasing and constructing facilities for the provision of interstate service directly to and from Alaska

File No. W-P-C-6861

DECLARATION OF PHILIP J. FREEDENBERG

FEDERAL ENGINEERING, INC.
10600 Arrowhead Drive
Fairfax, Virginia 22030

Dated: June 23, 1993

SUMMARY

Alascom, Inc. has engaged the Declarant, a fully qualified and highly experienced telecommunications systems engineer, to independently evaluate certain claims made in AT&T's recent Section 214 ~~application~~¹ and in a related petition² to the Federal Communications Commission. After his analysis, the Declarant concludes that:

- There is no justification for AT&T's claim that its proposed system "transcend[s] the limitations of the Alaska Spur"
- AT&T has not shown that its proposal would constitute a cost effective method of providing telecommunications services to Alaska
- There is no justification for AT&T's derogatory insinuation of technical problems in the Alaska Spur
- There is no basis for AT&T's claims that its undersea signal repeaters are more reliable than conventional repeaters
- The channel capacity of AT&T's proposed cable, which would far exceed demand levels, is neither warranted nor desirable; given AT&T's financial strength, emplacing this much capacity could position AT&T to dominate interstate service provision to and from Alaska
- AT&T's Consumer Benefit Plan, as described, is unlikely to benefit the Alaskan consumer.

¹ Application of American Telephone and Telegraph Company under § 214 (a) of the Communications Act for Authority to create and operate its own network by leasing, purchasing and constructing facilities for the provision of interstate service directly to and from Alaska, File No. W-P-C-6861, submitted to the Federal Communications Commission March 31, 1993.

² AT&T's Petition to Terminate the Joint Service Arrangement, CC Docket No. 83-1376, submitted to the Federal Communications Commission March 31, 1993.

Re: CC Docket No. 83-1376
File No. W-P-C-6861

DECLARATION OF PHILIP J. FREEDENBERG

I, Philip J. Freedenberg, am Executive Vice President of Federal Engineering, Inc., an independent telecommunications consulting firm headquartered in Fairfax, Virginia. I am by profession a telecommunications systems engineer with over 26 years of industry experience. I have earned the B.S., M.S.E.E., and E.E. degrees from Columbia University, with concentrations in communications theory. I have been elected to the Tau Beta Pi and Eta Kappa Nu national engineering honor societies, and have been awarded Columbia University's Illig Medal. I am a member of the Institute of Electrical and Electronics Engineers and of the Society of Telecommunications Consultants, and have published widely in the technical press. My professional experience encompasses the fields of fiber optic communications and engineering economics, among other specialized disciplines.

STATEMENT OF THE PROBLEM

Alascom, Inc. has retained Federal Engineering, Inc. to offer an independent professional opinion as to the merits of certain claims made by AT&T in its recent Section 214 Application "for authority to create and operate its own network by leasing, purchasing and constructing facilities for the provision of