

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
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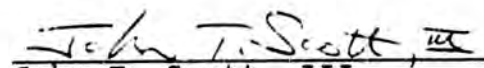
Rate integration will help integrate Alaskans into the society of their nation. Data recently submitted to the Joint Board show the State's economy is undergoing serious and widespread dislocations resulting from the radical decline in the price of oil. Personal income and employment are decreasing in sharp contrast to the national economy, and the State has been forced to institute drastic cuts in a wide range of government programs.^{11/} In these difficult times, and in a state where telephone service plays a uniquely important role, policies which will make telephone rates more affordable continue to be vital.

Respectfully submitted,

THE STATE OF ALASKA
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September 18, 1986

^{11/} Response of the State of Alaska to Order Requesting Data and Inviting Comments, filed July 15, 1986, at Sections G and H.

CERTIFICATE OF SERVICE

I, Lynne L. Forehand, hereby certify that on this 18th day of September, 1986, I caused copies of the foregoing "Comments of the State of Alaska on Emergency Request for Immediate Rate Integration" to be sent by first-class mail, postage prepaid, to the following:

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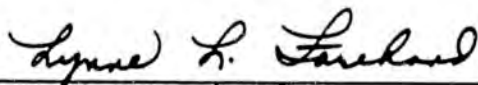
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10-9-86

FILE

RECEIVED

OCT - 9 1986

**FCC
Office of the Secretary**

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

In the Matter of

Integration of Rates and Services
for the Provision of Communications
by Authorized Common Carriers Between
the Contiguous States and Alaska,
Hawaii, Puerto Rico and the Virgin
Islands

CC Docket No. 83-1376
RM 4436

To: The Commission

**RESPONSE OF THE STATE OF ALASKA
TO REPLY COMMENTS OF
AMERICAN TELEPHONE AND TELEGRAPH COMPANY**

The State of Alaska (Alaska or the State), by its attorneys, hereby responds to the "Reply Comments" of American Telephone and Telegraph Company (AT&T), dated September 30, 1986, concerning the "Emergency Request for Immediate Rate Integration" (Request) filed by Alascom, Inc. (Alascom). The Reply Comments constitute AT&T's second pleading on the Request. This Response is filed to correct matters addressed in AT&T's Reply Comments.

1. The State's Comments raised only matters discussed in Alascom's Request. Indeed, AT&T itself discussed these matters in its Comments. (AT&T Comments at 5-7.) AT&T's Reply Comments merely reargue the same point it had previously raised.^{1/}

^{1/} For this reason, AT&T has not demonstrated "good cause" for acceptance of its Reply Comments under Section 1.3 of the Commission's Rules (the procedural rule on which it relies). Should, however, AT&T's Reply Comments be accepted, the State requests leave to submit this Response.

2. AT&T incorrectly implies that the State alone supported continuation of the transitional supplement. The Alaska Telephone Association's comments on Alascom's Request supported continuation of the supplement until the other issues in this proceeding can be resolved, because "termination of the supplemental payments without resolving the underlying separations issues will have disastrous consequences for Alaskan telephone subscribers." (ATA Comments at 3.)

3. AT&T reargues its view that continuation of the transitional supplement "is beyond the Commission's authority under Section 201 of the Communications Act." (Reply Comments at 6-8.) AT&T, however, cites no authority interpreting Section 201. The Commission has the authority to continue the supplement pending resolution of this proceeding, as it has held. Memorandum Opinion and Order, Integration of Rates and Services, CC Docket No. 83-1376 (FCC 85-616, Dec. 11, 1984) at ¶ 4-6.^{2/} This is particularly true given the nexus, which AT&T ignores, of the supplement to separations (see State of Alaska Comments at 2-4), and given that the Commission is not barred from recognition and consideration of intrastate (as well as interstate) effects of its decisions. See NARUC v. FCC, 737 F.2d 1095, 1108 n.6 (D.C.Cir. 1984), cert. denied, 105 S.Ct. 1224 (1985) ("MCI contends that the FCC has no responsibility to promote universal service because 'the Commission has no statutory responsibility for local communications,' and therefore 'it would be unlawful for it to

^{2/} See also MCI Telecommunications Corp. v. FCC, 750 F.2d 135, 141 (D.C. Cir. 1984); Lincoln Telephone and Telegraph Co. v. FCC, 659 F.2d 1092, 1107-08 (D.C. Cir. 1981).

promulgate a policy designed to . . . benefit local communications.' Brief for Intervenor MCI Telecommunications Corp. at 19 n.20. We reject MCI's argument. Congress directed that, 'so far as possible, . . . all people of the United States' are to have adequate telephone facilities at reasonable prices.").

4. AT&T relies on information submitted in a pending proceeding before the Alaska Public Utilities Commission (Appendix A to AT&T Reply Comments). That information^{3/} is submitted in a different proceeding, and one which is not resolved. This Commission has, of course, had no opportunity to examine the context in which it was submitted, nor its underlying premises, nor its relationship to the other issues this Commission is considering.

Respectfully submitted,

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^{3/} Compare "Opposition of General Communications, Inc. to Alascom Emergency Request," filed September 18, 1986, at 23.

CERTIFICATE OF SERVICE

I, Lynne L. Forehand, hereby certify that on this 9th day of October, 1986, I caused copies of the foregoing "Response of the State of Alaska to Reply Comments of American Telephone & Telegraph Company" to be sent by first-class mail, postage prepaid, to the following:

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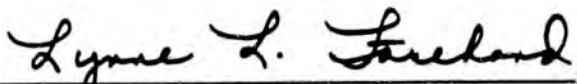
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11-28-86

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

NOV 28 1986

OF
FILE

In the Matter of)
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Integration of Rates and)
Services for the Provision of)
Communications by Authorized)
Common Carriers Between the)
Contiguous States and Alaska,)
Hawaii, Puerto Rico and the)
Virgin Islands)
)

CC Docket No. 83-1376

RM 4436

To: The Federal-State Joint Board

COMMENTS OF THE STATE OF ALASKA

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SUMMARY

The comments of the State of Alaska (Alaska or the State) focus on Alaska telecommunications service, and on the importance of rate integration and existing separations policies to achievement of universal service for Alaska.

The State believes that the Joint Board's recommendations in this proceeding must promote the goals of universal service and integration of Alaska into the Nation. Universal service (established by the Congress and endorsed by the courts and the Commission), and recognition that universal service has been uniquely difficult to achieve for Alaska, should be the governing principle on which the Joint Board's recommendations are based.

The Commission has at earlier stages of this proceeding affirmed the relationships between Alaska's demographics and geography, the state's dependence on telecommunications and the high cost of Alaska telecommunications. (Data submitted in the State's Data Response of particular relevance to these matters and to the importance of universal service have been highlighted for the Joint Board's convenience.)

Rate integration will implement achievement of universal service. Any difference between Alaska interstate revenues and costs is built into nation-wide, geographically averaged rate levels, which are an essential element of rate integration. While Alaska may be a high cost portion of the national market, it is part of -- not separate from -- that market. The Commission has said that the rate integration policy "should be interpreted as implicitly

recognizing that a rate structure which averages rates in 48 states and de-averages rates in 2 states may subject the residents of those two states to an unreasonable prejudice or disadvantage within the meaning of Section 202(a)" of the Communications Act. MTS/WATS Market Structure, 81 F.C.C.2d 177, 192 (1980). For these reasons, any difference between revenues and costs in the provision of Alaska interstate service must be recovered from rate integrated interstate rates.

Suggested alternatives are inconsistent with national policies and goals. For example, charging higher rates for Alaska interstate service would be inconsistent with rate integration. Recovering any difference between revenues and costs for interstate services by increases in intrastate rates is unsupported by any policy and inconsistent with universal service. It would also impose a "tax" on rate integration, and amount to no rate integration at all.

Like rate integration, separations policy should also implement achievement of universal service. The plan to reform COE Category 8 separations policies advocated by AT&T would increase intrastate revenue requirements by \$42 million (\$167.50 per Alaska access line) per year. But separations policies have as a primary concern the "permanent protection of universal service," (Jurisdictional Separations Procedures; Federal State Joint Board Recommendations, 48 Fed. Reg. 46,556, 46,564 (1983)) and are also designed to promote a national, integrated telephone network. Separations changes of this magnitude and type, and which have

unique impact on only one state, undercut both the universal service policy and the national network concept, and are discriminatory. In no other state would the shifts to the intrastate jurisdiction be so great (either overall, or on a per access line basis), nor the likely impact be so devastating to universal service. In that regard, it should be noted that the telephone subscribership level in Alaska is already 8.7 percent below the national average, and lower than in 48 of the other 49 states.

The Category 8 separations change advocated by AT&T would prevent potential savings of only 4 cents per month if distributed among all AT&T customers. AT&T has consistently met or exceeded its allowed rate of return. In light of these (and other) facts, the Category 8 changes advocated should not be adopted.

It must be recognized that uniform changes to separations procedures can create discriminatory, rather than even handed, results. Accordingly, such policies cannot, consistent with equity, comity and national policy goals, be applied across the board without modification. In light of its charter, this Joint Board should be part of the process of establishing separations policy applicable to Alaska.

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

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CC Docket No. 83-1376

RM 4436

To: The Federal-State Joint Board

COMMENTS OF THE STATE OF ALASKA

I. INTRODUCTION

The State of Alaska (Alaska or the State) hereby submits its comments in the above-captioned proceeding. These comments focus on Alaska telecommunications service, and on the importance of rate integration and existing separations policies to achievement of universal service for Alaska. In light of the fact that on December 1, 1986, one day before these comments must be submitted, a new Governor will take office in Alaska, and of the complexity of the issues in this Joint Board proceeding (complicated by the existence of a number of unresolved related matters, such as the Alascom "Emergency Request for Immediate Rate Integration" and the pendency of Alascom, Inc. v. FCC (No. 85-1279) before the United

States Court of Appeals for the District of Columbia Circuit), the State is not now submitting a specific proposal. After submission of comments or proposals by other parties, and analysis of them, the State will submit additional comments or a proposal, as appropriate.

II. THE JOINT BOARD'S RECOMMENDATIONS MUST PROMOTE THE GOALS OF UNIVERSAL SERVICE AND INTEGRATION OF ALASKA INTO THE NATION.

A. Universal Service, And Recognition That It Is Uniquely Critical To And Difficult To Achieve For Alaska, Must Be The Governing Principle For The Joint Board's Recommendations.

Universal service is a statutorily based Commission policy. Section 1 of the Communications Act of 1934, as amended (the Act), 47 U.S.C. § 151, states that the Commission was created:

For the purpose of regulating interstate and foreign commerce in communication by wire and radio so as to make available, so far as possible, to all the people of the United States a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges . . . ✓

✓ Congress has specified that this objective apply to rural subscribers:

It is declared to be the policy of Congress that adequate service be made generally available in rural areas through the improvement and expansion of existing telephone facilities and the construction and operation of such additional facilities as are required to assure the availability of adequate telephone service to the widest practicable number of rural users of such service.

(Footnote continued)

47 U.S.C. § 151 (1962). Citing this statutory directive, the United States Court of Appeals for the District of Columbia Circuit stated that "[o]ur case law recognizes the prominence of this universal service objective," and rejected a contention that the Commission has no responsibility to promote universal service. National Association of Regulatory Utility Commissioners v. FCC, 737 F.2d 1095, 1108 & n.6 (1984), cert. denied, 105 S. Ct. 1224 (1985). The Commission has also consistently recognized that Section 1 of the Act mandates affordable, universal telephone service.^{2/}

^{2/} (continued)

Rural Electrification Act of 1936, 7 U.S.C. § 921. More recently, the House Committee on Energy and Commerce Report on H.R. 4102, the "Universal Telephone Service Preservation Act of 1983," stated:

The 50-year national effort to bring affordable and universally available telephone service to the public has served the nation well. Universal telephone service has contributed to the nation's economic, social and political integration and development. Each telephone subscriber receives a greater benefit and more valuable service when anyone else in the country can be called. Universal telephone service is threatened by significant rate increases that will impact especially hard upon the poor, elderly, handicapped and those living in high-cost rural and urban areas.

H.R. Rep. No. 479, 98th Cong., 1st Sess. 13 (1983).

^{2/} See, e.g., MTS and WATS Market Structure, CC Docket Nos. 78-72 and 80-286 (July 26, 1985) at 1. The Joint Board, in an Order Inviting Further Comments, stated that "The preservation of universal telephone service has been a major Commission objective throughout the MTS and WATS Market Structure proceeding". MTS and WATS Market Structure, 97 (Footnote continued)

While universal service must be the lodestar for this proceeding, as it is in consideration of all national telecommunications matters, it must also be recognized that universal service is of particular importance to Alaska.^{1/} Alaska is a state of vast distances, scattered communities and limited transportation alternatives, where telecommunications service plays a unique and irreplaceable role in, for example, providing health care, creating educational opportunities, facilitating business and commerce, and linking Alaska to the rest of the Nation.

The Commission has, in this proceeding, previously recognized the link between Alaska's demographics and geography and the state's reliance on telecommunications, as well as the link between these conditions and the high cost of telecommunications for the State. In its December 11, 1984 order regarding market structure, the Commission concluded:

The remote communities in Alaska rely on telecommunications for much of their contact with others. The costs of providing this service to these points is significantly higher than that for other locations given the low population density, the remoteness of many of the communities, and the fixed costs associated with satellite transmission.^{2/}

^{2/} (continued)

F.C.C.2d 682, 683 (1983), aff'd in part, remanded in part, sub nom. NARUC v. FCC, 737 F.2d 1095 (D.C. Cir. 1984), cert. denied, 105 S. Ct. 1224 (1985). See also Notice, CC Docket No. 78-72, Phase IV, FCC 83-254 (June 8, 1983); MTS and WATS Market Structure, 93 F.C.C.2d 241, 265-67, 278 (1983).

^{3/} Cf. Alaska Communications Disposal Act, 40 U.S.C. § 771, et seq.

^{4/} Integration of Rates and Services, CC Docket No. 83-1376, FCC 84-616 (December 11, 1984) at 2.

Likewise, in a companion order issued the same day the Commission noted that:

The State of Alaska has unique geographic and cost characteristics which were a significant factor in the Commission's adoption of rate integration, and may also influence the type of competitive market structure that will be viable in Alaska. In the decision opening the Alaska MTS/WATS market to competition, the Commission noted several of these characteristics, including low, thinly distributed population density . . . adverse climatic and geographic conditions, and remote facility locations leading to high maintenance costs.^{3/}

Exhaustive data with respect to the state were submitted in the first round of this proceeding. Only a few of the facts of particular relevance to the issues before the Joint Board will be highlighted here. As noted in the State's Data Response, Alaska has the largest land mass of any state and the smallest population. (Response of the State of Alaska to Order Requesting Data and Inviting Comments, filed July 15, 1986 (Data Response) at Section A, 1). In its 591,004 square miles -- 20 percent of the continental U.S. -- the U.S. Bureau of the Census estimates that there are only 500,000 people. (Id.) Superimposed on a map of the U.S., Alaska reaches from the East Coast to the West Coast, and from the Canadian border to Mexico. (Id.)

Alaskan communities are isolated from the continental U.S. and from each other by very significant geographic distances. Although Alaska is only 2.5 miles from the Soviet Union, it is 663 miles north of Seattle. (Id. at Section B, 5.) Within the state,

^{3/} Integration of Rates and Services, CC Docket No. 83-1376, FCC 84-512 (December 11, 1984) at 7.

some communities are over 1500 miles from the state capital at Juneau (id. at Attachment D-1), the distance from Miami to Boston or Denver to Mexico City (id. at Section B, 2.)

In addition to being separated from each other by vast distances (as well as terrain, climate and lack of roads), most Alaskan communities are extremely small. Over one half of the state's residents reside in one city, Anchorage, and another 10 percent reside in the only other U.S. Census Bureau and Alaska Department of Labor designated communities with populations larger than 10,000, Fairbanks and Juneau. (Id. at Section A, 4.) The remaining 43 percent, some 200,000 people, are scattered across the state among 300 smaller communities, 260 of which contain 1,000 or fewer people, and 228 (the majority) of which contain under 500 people.^{6/} (Id. at Section A, 4-5.) The population

^{6/} The distribution of Alaska's population by community size is as follows:

<u>Population of Community</u>	<u>Number of Communities</u>
More than 100,000	1
50,000 - 100,000	0
10,000 - 50,000	2
5,000 - 10,000	5
2,500 - 5,000	11
1,000 - 2,500	17
500 - 1,000	32
100 - 500	138
Less than 100	90

Data Response at Section A, 5. Just as there is disparity in the size of Alaska communities, there is also great variation in the living patterns of Alaskans, depending on where and in what size community they live, and on such other factors as income, history or ethnic origin. For example, a recent study showed that while only 7 percent of households in Anchorage live off the land to obtain all or part of their (Footnote continued)

density of the state is one person per square mile, the sparsest of any state; exclusive of Anchorage, the population density is one-tenth that of Wyoming, the state with the next lowest population density, and only one-one hundred twentieth that of the average U.S. density. (Id. at Section A, 2.)

Beyond being separated from each other by vast distances, Alaskans are further isolated from each other and the rest of the Nation by uniquely severe climate and terrain. The climate varies dramatically within the state. In one region, it rains or snows about 200 inches annually. (Id. at Section C, 2.) In another, 100-plus mile winds occur. (Id. at Section C, 3.) Other land zones face such severe problems as coastal flooding, snowfall extremes in excess of 900 inches a season, temperatures as low as 80° below zero, and no sun for two months each year. (Id. at Section C, 3-7.)

The vast distances, adverse climate and difficult terrain of Alaska limit the movement of people and information across the state, and to and from the contiguous United States. There are only limited alternatives to transport people or information. For example, there are only 8700 miles of highway in the state, of which only 2517 are paved. (Id. at Section D, 1-2.) Los Angeles County, alone, has 15,827 miles of paved roads, more than six times the mileage of all the paved roads in Alaska. (Id.) The vast majority of Alaska, including the entire western half of the

4/ (continued)

food, 63 to 93 percent of households in rural areas rely in whole or in part on subsistence activities. (Id. at Section A, 4-5.)

state (an area larger than the state of Texas), is not served by a single paved highway. (Id.)

Other modes of transportation are similarly limited. There is only one operating railroad in the state, which serves a narrow corridor from Fairbanks to Anchorage. (Id. at Section D, 3.) Marine transport, an important form of transportation in the state, is time consuming and costly. For example, the ferry from Juneau to Ketchikan, both in the same region of the state, takes 18 hours and, with car transport, costs \$209. (Id. at Section D, 6.) Air travel is a primary means of travel, but it is also subject to cost constraints and weather delays. While one can commonly fly from the east coast to the west coast in the continental U.S. for under \$200, one-way flights from Juneau to certain regional centers can cost over \$300. (Id. at Attachment D-11.) Air travel, moreover, may be unavailable for several days at a time due to inclement weather. (Id. at Section D, 8.)

The importance of universal service to Alaska can only be evaluated against this backdrop. Alaskans have long recognized the state's extraordinary reliance on telecommunications. Lisa Rudd, the former Commissioner of the Alaska Department of Administration, noted that:

Modern communications are not a convenience in Alaska. Communications are often essential to life itself and to the continuing economic development of the State. Rural areas simply do not develop where adequate telephone service does not exist

(Id. at Section I, 2.) The State Legislature made a similar observation earlier this year, taking special note of the

"importance that electronic communications plays in eliminating the problem of distance and isolation." (Id. at Section B, 2.)

Commensurate with the critical role that telecommunications plays, the State itself has invested heavily in telecommunication programs. Since 1975, exclusive of purchase of conventional telephone equipment and services, the State Legislature has appropriated \$217.6 million for telecommunications, an average of \$19.8 million annually. (Id. at Section I, 4.)

Not surprisingly, given the absence of alternatives, and the demographic and the other conditions in the state, telecommunications has assumed a critical and expanding role in the delivery of vital services to Alaskans. One of the earliest telecommunications initiatives in Alaska was in the area of emergency health service. Alaska suffers from a high rate of accidents, infant mortality, drug abuse and violent crime, and the health service system is taxed by the fact that two-thirds of all Alaskan communities lack a local physician or hospital. (Id. at Section F, 1-8.) The primary health provider in these communities is Alaska Area Native Health Service (AANHS). AANHS features a system of community health aides, linked by telecommunications to regional hospitals. This life saving system allows local aides to receive instructions for stabilization and immediate care, directs emergency assistance to the scene, and allows receiving clinics to prepare for patients. (Id. at Section F, 8-9.)

Educational opportunities in a state characterized by widely scattered tiny communities are also dependent on effective and affordable telecommunications service. As recently as 1970, 28

percent of Native high school age children lived in communities without high schools. (Id. at Section E, 2.) Many students were uprooted from their families to attend boarding school, but studies revealed social and emotional adjustment problems contributed to a 50 percent plus dropout rate and limited educational gains. (Id.) In the mid-70's, the State began heavy funding for a major initiative to provide local secondary school programs. To supplement the small teaching staffs which small schools can support, at both the high school and college level, the State has developed the Learn/Alaska Instructional Television programs as well as the Learn/Alaska Teleconferencing Network. These programs, however, are dependent on affordable telecommunications and the economy of the state. As the Dean of Rural Education stated regarding the Learn/Alaska Teleconferencing Network in hearings before the Alaska House Telecommunications Committee earlier this year:

We are facing a telecommunications crisis in terms of the costs of the audioconference I am dismayed that we may have to curtail the program that is demonstrating the efficacy of distance delivery to rural Alaska, at the very moment it is proving itself to the participants.

(Id. at Section I, 15.)

While universal service is critical to the State, it has been difficult to achieve. As the State pointed out to the Joint Board in CC Docket Nos. 78-72 and 80-286, a recent report on telephone

subscribership released by the Commission^{1/} indicates that between March and July 1986 (during which period the subscriber line charge doubled), telephone subscribership in Alaska fell almost 5 percent, and now stands at 83.5 percent, lower than all other states except Mississippi. (Report at Table 1.) It is 8.7 percent below the national average of 92.2 percent. (Id.)

Penetration in Alaska now appears to be lower than it was almost three years ago, in November, 1983. (Id.)^{2/} The State's highest penetration rate occurred in the March 1985 survey conducted before the first dollar of the subscriber line charge was imposed in June 1985; since then it has dropped almost 6 percent. Given this decline in telephone penetration in Alaska, it is particularly important that this Joint Board not retreat from the longtime commitment to rate integration, impose changes in separations procedures or devise mechanisms which would either undermine the realization of universal service for Alaska or prevent provision of service to all areas of Alaska.

^{1/} Industry Analysis Division, Common Carrier Bureau, "Telephone Subscribership in the U.S." (released September 12, 1986) (Report). The Report provides national and state figures for telephone penetration (percentage of households with residential phone service), based on a July 1986 survey conducted by the U.S. Census Bureau.

^{2/} This is true even if telephone availability, other than in a household, is considered. See Report at Table 1. In November 1983, availability was 88.8 percent; in July 1986 it was 86.1 percent, 7.9 percent below the national average. Id.

III. ANY DIFFERENCE BETWEEN REVENUES AND COSTS FROM THE PROVISION OF INTERSTATE SERVICE TO AND FROM ALASKA MUST BE RECOVERED FROM RATE INTEGRATED INTERSTATE RATES AND NOT RECOVERED BY SEPARATIONS CHANGES THAT SHIFT COSTS TO THE INTRASTATE JURISDICTION.

A. Rate Integration Will Implement Achievement Of Universal Service.

Achievement of universal service requires the national policy of rate integration to be continued and fully implemented. In adopting the rate integration policy over 14 years ago, the Commission said:

The relatively high level of charges . . . has inhibited the free flow of communications between the contiguous states and these [off-shore] points to the disadvantage of all of our citizens. It is our considered view that the public interest requires that the distinctions, particularly with respect to level of charges and rate patterns, should be eliminated.^{2/}

Not long ago, the Senate Committee on Commerce, Science, and Transportation recognized the crucial link between universal service and rate integration:

The policy of rate integration has been specifically endorsed by this Committee as long ago as 1975. The Committee believes that rate integration represents sound public policy that benefits the entire Nation, and must be maintained. The Committee notes it is consistent with the overall policy objective of this legislation -- to maintain universal telephone service at reasonable rates throughout the Nation.^{10/}

^{2/} Domestic Communications-Satellite Facilities, 35 F.C.C.2d 844, 856 (1972) (Domsat II), aff'd on recon., 38 F.C.C.2d 665 (1972), aff'd sub nom. Network Project v. FCC, 511 F.2d 786 (D.C. Cir. 1975).

^{10/} S. Rep. No. 270, 98th Cong., 1st Sess. 25, 26 (1983).

B. Any Difference Between Alaskan Interstate Revenues And Costs Is Built Into The Rate Integration Process.

The parties to this proceeding have recognized that provision of interstate message toll service to and from Alaska is a costly undertaking. AT&T estimates that in 1985 the cost of providing interstate message toll service to and from Alaska exceeded revenues derived from that service by \$87 million.^{11/} The State lacks the information necessary to confirm the accuracy of this figure. But, whatever the precise figure is, it seems that for Alaska interstate message toll service, costs exceed revenues.^{12/}

^{11/} AT&T Response to Data Request, filed July 15, 1986 (AT&T Data Response) at 4. AT&T estimates that approximately \$40 million of that amount is attributable to application of separations procedures which it views as improper. Id. at 16. Also included in the \$87 million estimate is the \$15 million annual supplement. Maintenance of the supplement has been advocated by the State in its pleadings in response to Alascom's "Emergency Request For Immediate Rate Integration" and will not be separately addressed here. AT&T apparently views the remainder (\$32 million) as related to rate integration.

^{12/} This is not to suggest that any disparity between costs and revenues attributable to Alaska interstate service is immutably fixed at present levels. There well may be cost savings that can be achieved by Alascom, AT&T or others through increased efficiency or other means. As both a policymaker and a customer, the State would welcome the achievement, and the resulting pass through to ratepayers, of any cost savings.

In addition, based on data submitted to the Joint Board, there may be one or more Alaska interstate service routes with respect to which costs do not exceed revenues. See Data Response of Alascom, Inc., filed July 15, 1986, at 107-08 (providing data with respect to interstate service to and from Anchorage), and Opposition of General Communications, Inc. (GCI) to Alascom Emergency Request, filed September 18, 1986, at 14-15, commenting on that data. Nonetheless, it
(Footnote continued)

It has long been the industry practice to charge for interstate toll calls on the basis of geographic mileage bands. The charge for a call of 1000 miles is the same, regardless of the particular locations and costs involved in transmitting the call. The costs of providing service are averaged and the rates for each mileage band set on a national basis to assure a reasonable rate of return for the provision of service to all markets, not each market individually. What a carrier loses on the more costly routes, is recouped on the less costly routes.

Rate integration necessarily involves nationwide averaging of rates for interstate service. The Commission has recognized that "averaged rates charged . . . may not necessarily relate to the underlying costs of providing the service. The averaging . . . has been justified on the grounds that no person should be deprived of telecommunications service at reasonable rates simply because of the high costs associated with serving the user's location." Integration of Rates and Services, 96 F.C.C.2d 567, 571 (1984).^{11/}

In reviewing national rate averaging in context with the increasingly competitive MTS market, the Commission concluded that

^{11/} (continued)

appears from the data provided by the parties that, on a state-wide basis, costs exceed revenues for Alaska interstate service.

^{12/} See also Domsat II, 35 F.C.C.2d at 857 ("In case of message telephone service . . . [service] proposal[s] . . . should be designed, in specified time phases if necessary, to integrate [non-contiguous] points into the uniform mileage rate pattern that now obtains for the contiguous states, with all that such approach implies in terms of nationwide cost averaging and equalizations for interstate rate-making purposes.")

any "de-averaging will not be caused by the mere presence of competition . . ." and that it "will not be forced upon us by the presence of competition in interstate interexchange services."^{14/} The Commission has reiterated its warning against selective de-averaging.^{15/} More recently, the Commission said: "Beside significantly contributing to the achievement and maintenance of universal service, geographic averaging has contributed greatly to the simplicity and clarity of MTS rates."^{16/} Rate averaging has also been supported by members of Congress.^{17/}

The purpose of the Commission's rate integration policy is to include offshore points, including Alaska, into the national geographic mileage bands.^{18/} Rate averaging is a necessary

^{14/} MTS and WATS Market Structure, 81 F.C.C.2d 177, 192-3 (1980).

^{15/} MTS and WATS Market Structure, 48 Fed. Reg. 42,984, 43,007 (1983).

^{16/} Guidelines for Dominant Carriers' MTS Rates and Rate Structure Plans, 50 Fed. Reg. 1881, 1886 (1985); see also Guidelines for Dominant Carriers' MTS Rates and Rate Structure Plans, 59 R.R.2d 70, 90 (1985) ("[W]e find that any optional MTS offering that proposes to geographically de-average rates would be unacceptable and not in compliance with these guidelines even if the offering satisfied all other criteria.").

^{17/} See, e.g., Letter from Senator John C. Danforth, Chairman, Committee on Commerce, Science and Transportation, U.S. Senate, to Mark S. Fowler, Chairman, Federal Communications Commission, (November 18, 1986), in which Senator Danforth states: ". . . I firmly support the policy of nationally averaged rates. . . . My concern is that the deaveraging of toll rates could force rural Americans to pay dramatically higher rates and could have a detrimental effect on independent telephone companies and small interexchange carriers."

^{18/} See Domsat II, 35 F.C.C.2d at 856-59.

element of the Commission's rate integration policy.^{19/} The Commission has said its rate integration policy "should be interpreted as implicitly recognizing that a rate structure which averages rates in 48 states and de-averages rates in two states may subject the residents of those two states to an unreasonable prejudice or disadvantage within the meaning of Section 202(a) [of the Communications Act]."^{20/}

Any difference between revenues derived from and costs allocated to interstate service to and from Alaska is built into the Commission's rate integration policy. This difference for service to and from Alaska must be treated the same as differences for service to and from other locations which are costly to serve. Any shortfall is not properly viewed as a burden on interexchange carriers providing such service.

Put another way, while Alaska may (like other states) be a high-cost portion of the national market, it is not a separate market.^{21/} In the nation-wide market of which Alaska is a part,

^{19/} Integration of Rates and Services, 96 F.C.C.2d 567, 571 (1984).

^{20/} MTS/WATS Market Structure, 81 F.C.C.2d 177, 192 (1980). The Commission also said, "[A] rate structure which uses different ratemaking methods to determine the rates which different users pay for comparable services is inconsistent with the national policy expressed in Section 202(a)." Id.

^{21/} Competitive Common Carrier Services, 95 F.C.C.2d 554, 574-75 (1983) ("[W]e conclude that there is a single national relevant geographic market (including Alaska . . .) for interstate, domestic, interexchange telecommunications services with no relevant submarkets."). Deviations from national, rate averaged and integrated rates would be inconsistent with this finding and undercut the Commission's competitive and deregulatory policies.

in states where overall costs are lower than the national average, integrated rates will be higher than costs. In states where costs are higher than the national average, integrated rates will be lower than costs. The shortfalls on high cost routes are recouped by service on low cost routes.^{11/} But in the national market, nation-wide rates are structured to include all of these costs.

C. The Suggested Alternatives For The Treatment Of Any Difference Between Alaska Interstate Service Revenues And Costs Are Inconsistent With Fundamental National Communications Policies.

Apparently underlying some of the comments and data submissions in this proceeding is the suggestion that any difference in revenues and costs of Alaska interstate service be recovered through charging either higher than rate-integrated rates for interstate service to and from Alaska, or higher Alaska intrastate rates. These suggestions are inconsistent with fundamental national communications policies.

^{11/} The State does not know the amounts of any differences between revenues and costs attributed to the provision of interstate message toll service to and from particular states. There may, or may not, be other states which have differences approximately equal to, or even greater than, the difference between revenues and costs for Alaska interstate service. See Order Requesting Data and Inviting Comments, CC Docket No. 83-1376 (May 9, 1986) at ¶ 31. In any event, the fact remains that nationally averaged, rate integrated rates are designed to generate a reasonable rate of return for service to and from all states. The difference between revenues and costs for any one state, by itself, is not relevant.

Rates for interstate message toll service to and from Alaska already exceed nationally rate integrated rates.^{23/} The Commission has repeatedly determined that rates for that service should be reduced to rate integrated levels.^{24/} To reverse that determination, and maintain or increase the disparity between rates for interstate service to and from Alaska and national interstate rates, might result in an absence of state-wide service and would be inconsistent with the rate integration policy. Such an action would discriminate against Alaska and deny its citizens the benefits of the national telecommunications system. (See pages 12-15, supra.) The social, political and economic integration of Alaska with its forty-nine brethren would be retarded, to the detriment of all Americans.

It has also been suggested that any difference between revenues derived from and costs allocated to the provision of Alaska interstate service be recovered through increases in Alaska intrastate service rates.^{25/} But the issue in this proceeding is how

^{23/} AT&T has reduced its interstate message toll service rates considerably over the past several years. Its latest rate reduction, estimated at about 8 percent, is scheduled to go into effect on January 1, 1987. AT&T's rates for Alaska interstate toll service have declined, but a difference between interstate rates for Alaska and the rest of the Nation remains. See GCI Response to Data Request, filed July 15, 1986, at Exhibit VI-A (differential estimated at 9 percent). See also Alascom Transmittal No. 424, November 4, 1986 (revising Tariff FCC No. 1) (differential estimated at 7 percent).

^{24/} See, e.g., Domsat II, 35 F.C.C. 2d at 856; Integration of Rates and Services, 96 F.C.C.2d 567, 570 (1984).

^{25/} See AT&T Data Response at 17, 30-31.

the costs of interstate service to and from Alaska should be recouped. There is no support for the proposition that intrastate service rates should be increased to pay for interstate service.

Such a proposition, in fact, flies in the face of often repeated federal telecommunications policy goals, including promotion of universal service. Universal service in Alaska and elsewhere would be harmed if interstate costs above national norms were shifted to intrastate jurisdictions. Such a move would also negate the goal of rate integration, to provide reasonably priced interstate toll service to all United States residents. Totalling the costs of interstate service and recovering those costs in an equitable way by averaging the rates that everyone pays for that service is an essential element of rate integration. Increasing intrastate rates to recover any difference between revenues and costs of Alaska interstate service imposes a "rate integration tax" on Alaska, and thus results in no rate integration at all.

D. Separations Policy Should Also Implement Achievement Of Universal Service.

The Joint Board in CC Docket No. 80-286 is examining changes in Part 67 separations policies. It has recognized that any NTS allocation plan must "ensure the permanent protection of universal service."^{26/}

^{26/} Jurisdictional Separations Procedures; Federal State Joint Board Recommendation, 48 Fed. Reg. 46,556, 46,564 (1983).

In addition, the Senate Committee on Commerce, Science, and Transportation has stated in connection with rate integration that separations policies should not create substantial shifts to the intrastate jurisdiction:

It is the intent of the Committee that any change in the prescription of separations and settlements methodologies of the noncontiguous States necessary to implement rate integration not result in the shifting of a greater percentage of the costs of providing long distance facilities from the Federal to the State jurisdictions that [sic] is now the case.^{27/}

- E. Any Difference Between Alaska Interstate Revenues And Costs Should Not Be Reduced By Adopting Separations Changes That Transfer Costs To The Intrastate Jurisdiction.

AT&T suggests that much of the difference between Alaska interstate revenues and costs is the result of separations procedures it believes are not cost-justified.^{28/} In particular, AT&T suggests that this difference could be reduced significantly if separations rules and procedures relating to Category 8.23 central office equipment (COE), which includes satellite earth stations, were revised. AT&T believes that use of a distance-related factor -- conversation minute miles (CMM) -- in separating allocations is inappropriate and, even if appropriate, has been improperly applied by Alascom.^{29/}

^{27/} S. Rep. No. 270, 98th Cong., 1st Sess. 25, 26 (1983).

^{28/} AT&T Data Response at 13-17. This amount was estimated by AT&T in its Data Response at \$40 million. But see page 21, infra.

^{29/} Id. at 13-17.

AT&T suggests that the CMM factor not be applied to Category 8.23 equipment for which it believes costs are not distance sensitive.^{10/} Alternatively, if that step is not taken, AT&T requests that Alascom be required to exclude from its separations calculations the mileage between Alaska and the lower 48. AT&T also suggests that it be allowed to provide service up to points of interconnection in Alaska.^{11/} Each of these three suggestions would shift costs presently allocated to the interstate jurisdiction to the intrastate jurisdiction. This shift would be accomplished by removing or reducing the Alaska study area interstate mileage factor used to separate Category 8.23 costs.^{12/}

The Joint Board in CC Docket No. 80-286 is considering whether to recommend on a nation-wide basis changes to Category 8 separations procedures. The primary change in Category 8 separations procedures which AT&T seeks in this Joint Board proceeding is, in effect, the adoption of alternative separations procedure Plan 8-C in CC Docket No. 80-286. That plan would remove distance as a factor in allocating the cost of Category 8.23 equipment perceived as distance insensitive but not Category 8.23 equipment perceived as distance sensitive.^{13/} Data submitted by Alascom in

^{10/} Id. at 16; Reply Comments of AT&T, CC Docket No. 80-286, filed October 29, 1986.

^{11/} AT&T Data Response at 17.

^{12/} Id.

^{13/} Reply Comments of AT&T, CC Docket No. 80-286, filed October 29, 1986.

that proceeding indicates that the Category 8 separations rules changes AT&T is seeking (the adoption of Plan 8-C) would increase Alascom's intrastate costs, and decrease interstate message toll service costs, by approximately \$42 million a year.^{14/}

AT&T's proffered justification for the Category 8 separations changes it seeks, that current procedures are not cost causative,^{15/} ignores fundamental Commission policies regarding separations rules. Separations has never been, nor should it be, a

^{14/} Data submitted by Alascom, Inc. in CC Docket No. 80-286, filed October 16, 1986.

The Joint Board in CC Docket No. 80-286 is considering two other alternative plans for Category 8 COE. Plan 8-B, which, like Plan 8-C, would remove distance as a factor in separating the cost of some, but not all, Category 8.23 equipment, would shift \$21.6 million of Alascom's interstate costs to the Alaska intrastate jurisdiction. Plan 8-D, which would remove distance as a factor in separating the cost of all Category 8.23 equipment, would shift \$50.5 million of Alascom's interstate costs to the Alaska intrastate jurisdiction. Id.

Also under consideration in CC Docket No. 80-286 are changes to Category 6 COE separations procedures which would shift some local dial switching equipment costs presently allocated to the interstate jurisdiction onto local exchange carriers. It has been estimated that as much as \$17 million annually in costs presently allocated to the interstate jurisdiction could be shifted to the intrastate jurisdiction through proposed Category 6 separations procedure changes. The effect of the Joint Board's proposed Category 6 plans would be greater on a per access line basis in Alaska than in any other state. See Reply Comments of the State of Alaska, CC Docket No. 80-286, filed October 29, 1986, at 11-14 (provided with this pleading as Attachment A).

^{15/} See, e.g., AT&T Data Response at 13-14; Reply Comments of AT&T, CC Docket No. 80-286, filed October 29, 1986, at 20-25, Supplemental Comments of AT&T Concerning Category 8 COE, CC Docket No. 80-286, filed September 12, 1986.

blind application of cost-causation principles.^{16/} "[C]onsiderations of fairness, not mere mathematics, govern the allocation of costs."^{17/} The Commission recently reiterated that "[t]he ultimate purpose of separations is . . . to achieve an equitable division of costs between interstate and intrastate ratepayers."^{18/} Of primary concern is the "permanent protection of universal service."^{19/} AT&T itself appears to recognize that protection of universal service justifies shifting costs to the interstate jurisdiction.^{20/}

^{16/} Separations of telephone plant is a political process. As a political process, separations has been one of accommodation and adjustment.

Gabel, Development of Separations in the Telephone Industry, Institute of Public Utilities, Michigan State University, at vii, quoted in State of Alaska Response to Comments, Docket No. 21263, filed March 19, 1982, at 2.

^{17/} Colorado Interstate Gas Co. v. Federal Power Commission, 324 U.S. 581, 591 (1945), quoted in Jurisdictional Separations Procedures; Federal-State Joint Board Recommendations, 48 Fed. Reg. 46,556, 46,566 (1983).

^{18/} MTS and WATS Market Structure, CC Docket Nos. 78-72 and 80-286, FCC 86-503 (November 14, 1986) at 2.

^{19/} Jurisdictional Separations Procedures; Federal-State Joint Board Recommendations, 48 Fed. Reg. at 46,564. Separations policy has favored extension of the national network and rate structures shaped to promote use of that network and growth of all services, local, intrastate and interstate.

^{20/} Cross-jurisdictional subsidies cannot arbitrarily be established, both as a matter of law and of established Commission practice. Where, as here, absolutely no showing has been made that cross-jurisdictional subsidies are needed to protect universal service goals,
(Footnote continued)

Another factor to be considered with respect to changes in separations procedures is whether those changes would promote the functioning of a national, integrated telephone network:

The first separations procedures anticipated (but did not fully articulate) a basic principle: that separations should be utilized not as a means of subdividing the telephone network into economically self-sustaining and independent units, but rather, separations - administered on a nationwide scale - should be employed for adjusting economic relationships among the telephone services and between the regulatory jurisdictions in a manner consistent with the perception of that telephone network as an integral whole.^{41/}

Separations changes that discriminate against one state do not promote a national telephone network.

Data submitted to the Joint Board in CC Docket No. 80-286 demonstrate that the separations procedures changes suggested by AT&T would have an extraordinary and discriminatory impact on Alaska. A shift of \$42 million would, assuming 250,000 access lines in the state, increase the annual intrastate revenue

^{40/} (continued)

interstate services nationwide cannot arbitrarily be burdened with costs that are attributable to intrastate operations.

Reply Comments of AT&T, CC Docket No. 80-286, filed October 29, 1986, at 31 (citations omitted). Conversely, it follows that where there is a showing, as here, of a need for what AT&T calls "subsidies" in order to protect universal service goals, such steps are appropriate.

^{41/} Separations Procedures in the Telephone Industry; The Historical Origins of a Public Policy, Harvard University Program on Information Resources, Policy Publication (P-77-2) (1977) at 129, quoted in Comments of the State of Alaska, Docket No. 21263, filed February 5, 1979, at 1.

requirement by approximately \$167.50 per access line.^{42/} A review of the exchange company data filed in CC Docket 80-286 and compiled by four exchange carrier trade associations indicates that in no other state would the impact of proposed Category 8 separations changes be nearly so severe.^{43/}

Outside of Alaska, some of the largest jurisdictional shifts under Plan 8-C (the plan advocated by AT&T) would occur in Florida and Maine, two states which, like Alaska, are at geographic ends of the country. In Florida, an approximately \$13 million shift would be distributed over almost 5.5 million access lines, resulting in an annual intrastate revenue requirement increase of approximately \$2.40 per access line. In Maine, an approximately \$6 million shift would be distributed over almost 440,000 access lines, resulting in an annual revenue requirement increase of

^{42/} The \$21.6 million shift which would occur if Plan 8-B were implemented would increase the annual intrastate revenue requirement by approximately \$89.90 per access line. The \$50.5 million shift which could occur if Plan 8-D were implemented would increase the annual intrastate revenue requirement by approximately \$201.50 per access line. See Reply Comments of the State of Alaska, CC Docket No. 80-286, filed October 29, 1986, at 24-25. See also page 21 and note 34, supra.

^{43/} Alascom is at present the sole intrastate interexchange carrier in Alaska. (An application by GCI to provide intrastate interexchange service has been submitted to the Alaska Public Utilities Commission.) In any event, in other states, local exchange carriers perform that function, at least on an intraLATA basis. (There are no LATAs in Alaska.) For this reason, a comparison of Alascom and local exchange carrier data is instructive. It should also be noted that existing data compilations in CC Docket No. 80-286 allow no other comparison.

approximately \$14 per access line.^{44/} The estimated shift for Alaska is ten times greater than for Maine and 70 times greater than for Florida.

The discriminatory impact of such changes on Alaska is not simply based on the magnitude of the potential shifts to the intrastate jurisdiction. Separations policy has been designed to provide support for high local costs (particularly high local loop costs) to enhance universal service and the national network. In Alaska, significant high costs are found in the satellite network. Support for them would serve the same goals and purposes as are presently served by separations policies. Indeed, in Alaska, satellite service serves many of the same functions as local loops, that is, to connect the subscriber to communities and the national network.

The impact of the advocated \$42 million shift on universal service would be devastating. Elasticity studies presented to the Joint Board in CC Docket No. 78-72 suggest telephone subscriber-ship levels are more elastic in areas in which such levels are already relatively low.^{45/} The \$42 million Category 8 separations

^{44/} Summary Reports of Category 8 Data for Local Exchange Carriers Submitted to the Joint Board in CC Docket 80-286, Summary Report 19.

^{45/} MTS and WATS Market Structure, CC Docket No. 78-72, FCC 84-636 (January 4, 1985) at 31, quoting "Residential Demand for Telephone Service in Areas Served by Contel" (National Economic Research Associates, Inc., August 10, 1984). This is true at least in areas where telephone subscribership is at the mid-70% level.

shift advocated by AT&T involves overall increases in intrastate rates of approximately \$14 per access line per month.^{46/} This could cause serious difficulties in provision of state-wide, as well as nation-wide, universal service.^{47/}

There is no need to make the separations rules changes AT&T seeks, AT&T's protestations to the contrary notwithstanding. The impact on AT&T and its ratepayers of the application of current Category 8 separations procedures to the provision of Alaska telecommunications service are miniscule when compared to the devastating effect changes in those procedures would have in Alaska.

^{46/} \$42,000,000 divided by 250,000 (the estimated number of Alaskan access lines) divided by 12 (months per year) equals \$14 per access line per month.

^{47/} Other proposed cost recovery changes would further harm universal service. If intrastate rates must rise to recover the remainder of the difference between revenues generated and costs attributable to Alaska interstate service, \$45 million would need to be raised. (This figure is based on AT&T's estimates and includes the \$15 million supplement.) This would require an additional rate increase averaging \$15 per access line per month. Data compiled in CC Docket No. 80-286 with respect to Category 6 separations changes could well require intrastate rate increases of approximately \$3-\$4 per access line per month. (See Summary Reports of Category 8 Data for Local Exchange Carriers Submitted to the Joint Board in CC Docket No. 80-286, Summary Report 8C.) Further increases in subscriber line charges of \$2 per line per month are being considered in CC Dockets 78-72 and 80-286. Finally, changes in mandatory pooling are under consideration which could jeopardize approximately \$20 million in annual high cost support received by Alaskan local exchange carriers. This could require a rate increase of approximately \$6-7 per access line per month. These changes -- totalling \$26 to \$28 per access line per month -- could cause further declines in telephone subscribership levels in Alaska.

Assuming that there are 113 million access lines in the Nation,^{48/} and that AT&T serves 75 percent (or approximately 84.75 million) of those access lines, not changing current Category 8 separations rules in Alaska would prevent potential savings by AT&T ratepayers of less than 50 cents per year, or only about four cents per month, if distributed evenly among all AT&T customers.^{49/} This amount would be virtually invisible to subscribers on a cost per call or cost per minute basis. The \$42 million separations amount at issue constitutes about 0.1 percent of AT&T's annual revenues.^{50/} In view of this fact, its effect on AT&T's ability to compete cannot be significant.

Current separations rules also do not unfairly affect AT&T's profitability. Category 8 costs that are allocated to the interstate jurisdiction are included in AT&T's revenue requirement. AT&T's rates are established to allow it to recover fully those costs. AT&T has consistently been able to meet its allowed rate of return.^{51/}

^{48/} Local Exchange Carrier Recommendations on Category 6 COE Separations Procedures, CC Docket No. 80-286 (October 29, 1986) at 14.

^{49/} \$42,000,000 divided by 84,750,000 lines divided by 12 months equals 4 cents per line per month.

^{50/} See FCC 1985 Preliminary Domestic Data from Statistics of Communications Common Carriers (August 27, 1986) at 1.

^{51/} AT&T's rate of return on interstate MTS/WATS service for 1984 and 1985 was 14.8 percent. AT&T Data Response at 37. The Commission recently lowered AT&T's authorized rate of return from 12.75 percent to 12.2 percent. Authorized Rates of Return for Interstate Service (Phase III), 60 R.R.2d 1589 (1986).

As noted above, equity, as well as mathematics, must be considered in resolving separations questions. The Joint Board should recognize the fact that investment in Category 8 equipment by Alaskan carriers has been encouraged by the Commission. Alascom, for example, has invested approximately \$172 million in such equipment. Local exchange carriers have also made such investments. These investments have been made on the basis of existing separations rules. To change those rules at this time, when the consequences would be so severe, would be inequitable.

In summary, the Category 8 separations changes proposed by the Joint Board in CC Docket No. 80-286, including the plan endorsed by AT&T, would have discriminatory, unnecessary and inequitable effects on the provision of telecommunications service for Alaska and would jeopardize attempts to accomplish universal service. Separations changes which would have uniquely discriminatory and adverse consequences for one state do not promote the national telephone network. Even if such changes were adopted generally, equity and comity, as well as universal service and other federal telecommunications policies, require that such changes not be applied (without appropriate modification) to that state. To ensure that nondiscriminatory and even-handed results are created by separations policies, even if those policies are themselves uniform, special steps must be taken. This Joint Board must be part of the process that establishes the separations ground rules for Alaska.

IV. CONCLUSION

Achievement of universal service and integration of Alaska into the national telephone network require continued implementation of rate integration and establishment of separations procedures which do not result in huge, discriminatory increases in intrastate revenue requirements. The State asks the Joint Board to keep these principles in mind as it continues its deliberations.

Respectfully submitted,

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November 28, 1986

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

In the Matter of)
)
)

Amendment of Part 67 of the)
Commission's Rules and)
Establishment of a Joint Board)
_____)

CC Docket 80-286

To: The Federal-State Joint Board

REPLY COMMENTS OF THE STATE OF ALASKA

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SUMMARY

The State of Alaska opposes adoption of any of the alternative plans currently proposed by the Joint Board for separating the costs of jointly used Category 6 and Category 8 central office equipment. Each plan would create extraordinary increases in intrastate revenue requirements for Alaska carriers, the highest of any state in the Nation. Adoption of those plans could have a devastating effect on the attainment and maintenance of universal telephone service.

With respect to Category 6, the State believes that the continuation of the distinction between non-traffic sensitive (NTS) and traffic sensitive (TS) costs is consistent with principles of cost causation and with national communications policy goals. There are Category 6 costs in every central office that do not vary with the number of calls switched, regardless of the specific technology employed. Some costs incurred are attributable to interstate calling requirements. Abolishing the NTS/TS distinction and allocating all costs on the basis of usage, as the alternative Category 6 plans propose, would not, therefore, be consistent with cost causation principles. Such a change in separations rules would also encourage uneconomic bypass. With respect to traffic sensitive costs, the State suggests the appropriate usage related factor is busy season, busy hour completed calls weighted by office size.

There is no justification for treating high Category 6 costs differently than high NTS local loop costs for purposes of high

cost support. At least in Alaska, high Category 6 costs are an unavoidable result of geography and other conditions. Communities in rural Alaska are widely scattered, but geographically compact. As a result, exchange companies in Alaska have high Category 6 expenses, and, concomitantly, relatively low NTS local loop costs. For example, Category 6 investment for some Alaska carriers exceeds \$1,000 per subscriber loop, over three times the national average. Companies with high Category 6 costs should receive high cost support analogous to the support provided for high NTS local loop costs.

With regard to Category 8, the data submitted to this Joint Board establish that the proposed alternative plans would have a unique and devastating impact on the provision of telecommunications services to, from and in Alaska. The data show that adoption of those plans would increase intrastate revenue requirements in Alaska from a low of \$21.6 million per year to as much as \$50.5 million per year, or from \$85.90 per loop per year to as much as \$201.50 per loop per year. Such a shift would undermine attainment and maintenance of universal service in Alaska. No other state would suffer any revenue requirement shift of anything approaching this order of magnitude.

Adoption of Category 8 separations procedures changes without taking special steps that recognize and address the extraordinary and unique effect of those changes in Alaska discriminate against Alaska, creating uniquely and critically adverse consequences for that state alone. This Joint Board must permit the Joint Board in CC Docket 83-1376 to participate in the evaluation and

recommendation of specific provisions that would allow the citizens of Alaska, like the citizens of other states, to be a part of the Nation's telecommunications system.

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

In the Matter of)

Amendment of Part 67 of the)
Commission's Rules and)
Establishment of a Joint Board)

CC Docket 80-286

To: The Federal-State Joint Board

REPLY COMMENTS OF THE STATE OF ALASKA

The State of Alaska (Alaska or the State) hereby submits its reply comments in response to the Order Inviting Comments and Request for Data released by the Federal-State Joint Board on May 7, 1986 (Order). In that Order, the Joint Board proposed various alternative plans for separating the costs of two categories of jointly used Central Office Equipment (COE): Category 6 (local dial switching equipment) and Category 8 (interexchange circuit equipment).

I. INTRODUCTION

The Joint Board has requested comments and data regarding the effect and merits of current and several specific alternative separations procedures for COE Categories 6 and 8. The Joint Board asked that these procedures be evaluated on the basis of the extent to which they (1) reflect cost causation principles; (2)

affect the existing division of revenue requirements between the jurisdictions; and (3) are simple to implement and administer. (Order at ¶ 25.)

These criteria are not, however, sufficient to evaluate alternate separations procedures. As the Commission has stated, Part 67 separations policies should be consistent with Part 69 access charge policies.^{1/} The Commission has identified preserving universal service, promoting economic efficiency, eliminating discrimination and deterring uneconomic bypass as the primary policy goals of its access charge policies.^{2/} While these policy goals may be implicit in the three criteria set forth by the Joint Board,^{3/} explicit consideration should be given to these policy goals in evaluating the separations procedure options under review here.

As further introductory matter, the State wishes to note its concern about two procedural issues in this proceeding. As indicated in the "Request for Extension of Time" filed by the National Rural Telecom Association, the National Telephone Cooperative

^{1/} WATS-Related and Other Amendments to Part 69, 59 R.R.2d 1418, 1429 at n.61 ("[U]nless there are substantial reasons to the contrary, the access charge rules should be consistent with the separations rules.").

^{2/} MTS and WATS Market Structure; Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board (Further Notice of Proposed Rulemaking) at ¶ 10 (July 2, 1986).

^{3/} Preserving universal service may be implicitly included in the criterion of affect on existing jurisdictional revenue requirements. Eliminating discrimination, promoting efficiency, and deterring uneconomic bypass may be implicitly included in the criterion of cost causation.

Association, the Organization for the Protection and Advancement of Small Telephone Companies and the United States Telephone Association, and in the Order of the Common Carrier Bureau responding to that Request, those telephone industry groups have joined together to compile Category 6 and Category 8 data. It was apparently intended that all participants be given an opportunity to analyze and evaluate the issues and alternatives raised in this docket in light of these data. See Order, CC Docket 80-286 (October 8, 1986).

In fact, approximately six inches of data concerning Category 6 were filed with the Joint Board on October 14 and another stack of data concerning Category 8 was filed with the Joint Board on October 17. None of those data were served on other participants in this proceeding.^{4/} The State, and other participants, have not had a meaningful opportunity to review and analyze these data, although the State has been able to obtain them, belatedly, through its own efforts. Nor does the State (or any other participant) know how these data were compiled and whether the procedures used and any assumptions made were appropriate. Even a cursory review of the data, however, shows that they are likely to have flaws.^{5/}

^{4/} Public notice of the filing and inclusion in the record of the Category 6 data was given on October 20, 1986. (FCC Public Notice 229) (October 20, 1986). Even assuming that it is proper to permit these data to be included in the record in the absence of service, nine calendar days notice of their inclusion in the record is inadequate to provide meaningful opportunity to review and comment on them.

^{5/} The state-by-state figures in Summary Report 19 concerning the impact of Plan 8C on interstate revenue requirements is nonsensical. The data are apparently a running total of all states and not the state-by-state figures they purport to be.

The inclusion of these data in the record, therefore, raises serious due process concerns unless all participants are promptly served with both the data and an explanation of how they were compiled, and are given an additional and reasonable period of time to comment on them.

Additionally, the State understands that certain industry trade associations have been meeting and formulating alternative plans to be proposed to the Joint Board as part of their reply comments. The State has not been invited to participate in this process nor has it had an opportunity to review and comment on these plans. If such plans are proposed, the Joint Board must provide all participants -- carriers and others -- at a minimum, an opportunity to review and comment on them. To do otherwise would be to deny the State and other interested parties their due process right to a meaningful opportunity to participate in this proceeding.^{5/}

The State also wishes to note that it has not had the benefit of the Alaska Telephone Association's analysis of the data filed and issues presented in this proceeding. The State will, of course, consider that analysis when it becomes available and may wish to file further comments based on it.

^{5/} Depending on the nature of these plans and the extent to which they are different from the Joint Board's proposals, it may be necessary to have two additional comment periods.

II. COE CATEGORY 6 SEPARATIONS PROCEDURES

A. Overview Of The Existing Separations Procedure And The Issues Raised By The Joint Board's Suggested Alternatives.

Currently, costs of jointly used local dial switching equipment, which comprises COE Category 6, are allocated to the intra-state and interstate jurisdictions in a two step process. First, Category 6 COE is designated as either non-traffic sensitive (NTS) or a traffic sensitive (TS). NTS equipment includes equipment for which quantities needed "are determined as a function of the number of lines terminated and which in no way are a function of the busy hour or total volumes of attempts, calls and messages offered to or switched by the office" ^{1/} TS equipment is defined as all other equipment. ^{2/} Some equipment is considered to include both NTS and TS components. With respect to such equipment, a certain percentage is designated as NTS or TS depending on the extent to which it performs NTS or TS functions. For example, modern digital switching equipment is generally considered 75 percent NTS. Some other (and older) types of switching equipment are considered 25 percent NTS. ^{3/}

Category 6 NTS costs are allocated between the interstate and intrastate jurisdictions based on the so-called subscriber plant

^{1/} 47 C.F.R. § 67.138(b).

^{2/} Id.

^{3/} See, e.g., Comments of the Public Utilities Commission of Colorado at 6 (July 9, 1986) (Colorado PUC Comments).

factor (SPF), which is frozen at 1981 levels.^{10/} Generally, on a nation-wide basis, SPF runs approximately 27-28 percent.^{11/} In Alaska, however, SPFs are generally much higher. The State gathered from the Commission's files and analyzed data with respect to 16 Alaska local exchange carriers for which it could locate data. All of these 16 companies have SPFs above the national average, and some have SPFs of 85 percent.^{12/}

Category 6 TS costs are allocated based on weighted dial equipment minutes (DEM), a usage-related factor. The toll weighting factors applied to DEM result in more TS costs being allocated to the interstate jurisdiction than would be the case if usage alone were considered. Because SPF is generally higher than the percentage of interstate weighted DEM, however, relatively more NTS costs than TS costs are allocated to the interstate jurisdiction.

The State's reply comments address three issues raised by the Joint Board's proposed alternative Category 6 separations plans and by the comments submitted concerning those plans:

1. Should the distinction between NTS and TS costs be maintained, or should all costs be treated as TS and then allocated by a usage-related factor?
2. What is the appropriate usage related factor for allocating TS costs?

^{10/} Decision and Order, CC Docket 80-286, 89 F.C.C.2d 1 (1982).

^{11/} See Further Comments of AT&T at 19 (August 11, 1986) (AT&T Further Comments).

^{12/} Alaska carriers with SPFs of 85 percent include Interior Telephone Company, Yukon Telephone Company, Bristol Bay Telephone Company, and Arctic Slope Telephone Company. See Attachment A to these reply comments.

3. How should exchange carriers with high Category 6 COE costs be treated with respect to high cost support?

B. The NTS/TS Distinction Is Consistent With Both Cost Causation Principles And National Communications Policy Goals And Should Be Retained.

A number of commenters^{11/} argue that the NTS/TS distinction should be eliminated. Generally, they contend that digital technology, increasingly used in central offices, makes the distinction obsolete.^{14/} They argue, for example, that it is now virtually impossible to determine the NTS portion of state-of-the art digital Category 6 COE since all such equipment is usage sensitive.^{15/} In the view of such parties, because 75 percent of the costs of some digital equipment are treated as NTS and allocated using SPF, interstate carriers (and customers) are subsidizing the conversion to digital switching equipment in local exchange offices.^{16/} For these reasons, it has been argued that the NTS/TS distinction should be eliminated and a single usage-related allocator should be adopted for all Category 6 costs.

^{11/} See, e.g., AT&T Further Comments at 8-18; Comments of Bell-South Corp. et al. at 6-7 (August 4, 1986); The Ameritech Operating Companies' Comments Concerning Separations Changes at 5 (July 16, 1986) (Ameritech Comments).

^{14/} See, e.g., Ameritech Comments at 5.

^{15/} See, e.g., Comments of Southwestern Bell Telephone Co. at 6 (July 14, 1986) (Southwestern Comments).

^{16/} It has been contended that, under current methodology, an average of 21 percent of the cost of a newly installed switching system is allocated to the interstate jurisdiction. Comments of AT&T at 9 (July 19, 1985) (AT&T Comments).

The State believes that the distinction between NTS and TS costs is consistent with both cost causation principles and national communications policy goals and, for a number of reasons, should be retained. First, there is a real and continuing difference between NTS and TS functions and costs. A large amount of Category 6 investment in digital offices is in line circuit equipment which is dedicated to a single or small number of individual lines. That line circuit equipment is clearly NTS. It is equipment for which demand is a function of the number of subscribers and not the amount of traffic switched. In addition, it performs the same functions performed by the analog NTS equipment which it replaces.^{17/} The costs of that dedicated equipment in digital offices should not be treated as traffic sensitive for the same reason the costs of NTS analog equipment should not be treated as traffic sensitive. It is simply not consistent with principles of cost causation to allocate costs which do not vary with usage on the basis of a usage-related factor.

Second, many Category 6 costs presently categorized as NTS are incurred primarily to satisfy interstate calling requirements.^{18/} Allocating NTS costs by employing a usage-based factor would require the intrastate jurisdiction to pay for costs incurred primarily because of interstate service and which need not be incurred to provide intrastate service.

^{17/} See Colorado PUC Comments at 20-23.

^{18/} See, e.g., Colorado PUC Comments at 13-20.

There are several examples of this phenomenon. Data transmission equipment, often involving expensive new digital or other technology, is frequently installed by an exchange company in response to demands for complex data services, which are predominantly interstate.^{19/} In addition, the quality of the line circuit equipment in local offices must meet certain technical standards (for noise, balance, return loss and echo, for example) which are designed to accommodate interstate services. Line circuit equipment is, therefore, more expensive than it would have to be to accommodate intrastate services needs.

More complex and expensive switching equipment is needed for interstate traffic than intrastate traffic, particularly in the 24 states like Alaska which have only one area code.^{20/} The increased demands switching inter-area code calls imposes is demonstrated in the decision chart found at Attachment B to these reply comments. Switching intraoffice calls involves less and simpler equipment and therefore costs less than switching inter-office, intraexchange calls. Switching intra-area code interexchange calls, similarly, costs less than switching inter-area code calls. In the 24 states with only one area code, all costs incurred in switching calls of more than seven digits are attributable solely to the interstate jurisdiction. In light of these facts, abolishing the NTS/TS distinction and allocating all costs by a

^{19/} Colorado PUC Comments at 16.

^{20/} In addition, the District of Columbia has one area code and Puerto Rico and the U.S. Virgin Islands share the same area code.

usage-based factor would not be consistent with cost causation principles.

Third, maintaining the NTS/TS distinction and the allocation of NTS costs on the basis of a constant factor unrelated to usage minimizes incentives for uneconomic bypass. As the NYNEX telephone companies point out, so long as NTS-related interstate costs are not recovered on a usage-sensitive basis, a dominant interstate carrier cannot reduce its NTS-related interstate access charges by reducing its demand for access services. Such a carrier, therefore, would be encouraged to expand, rather than contract, the volume of calls routed over exchange carriers' access facilities, since added usage would reduce the per unit cost for NTS access.^{21/} Accordingly, maintaining the NTS/TS distinction and a non-usage based allocator is consistent with policy goals set forth by the Commission and the Joint Board. See p. 2, supra.

Fourth, it is not consistent with cost causation principles to employ a usage-related measure to allocate fixed (i.e., NTS) costs between services for which a consumer incurs a marginal cost and those for which a consumer incurs no marginal cost. Where flat rate service is purchased, local calls have no marginal cost to telephone subscribers. Goods with such a cost structure -- free goods -- are consumed in greater quantities than they would be if they had significant marginal costs. Toll calls (whether local, intrastate or interstate) have marginal costs. Consumers

^{21/} Comments of the NYNEX Telephone Companies at 20-21 (August 11, 1986) (NYNEX Comments).

make toll calls only if the perceived value of the call exceeds the toll charges. Employing a usage-related factor to allocate fixed (i.e., NTS) costs between a free good and one with significant marginal costs would result in an excessive allocation to the free good, because the consumer has no incentive to restrict consumption of the free good. Since all calls which have no marginal costs are local calls, and local calls are generally intrastate calls, abolishing the NTS/TS distinction and allocating NTS, as well as TS, costs based on usage would result in an allocation to the intrastate jurisdiction that exceeds the relative value of intrastate calls made.^{22/}

Fifth, if the NTS/TS distinction were eliminated and all Category 6 costs were allocated by a usage-based measure, there would be enormous effects on existing divisions of revenue requirements between the jurisdictions. Although the amounts involved for Alaska cannot yet be determined with precision, they are very large. The 16 local exchange company analysis conducted by the State indicates annual allocation changes of \$5.8 million (for Plan 6E) to \$7.9 million (for Plan 6D) would result from proposed Category 6 changes.^{23/} This, of course, understates the total impact of these changes because data for several Alaska exchange carriers, including those serving Anchorage and Fairbanks, were not available. AT&T apparently estimates the allocational shift

^{22/} See Comments of United Utilities, Inc. at 5 (July 9, 1986) (United Utilities Comments).

^{23/} See Attachment A.

for Alaska from changed Category 6 procedures to be approximately \$16 million a year.^{24/} In these circumstances, adoption of the proposed plans would deal universal service, particularly in rural areas, a crippling blow.

The Alaska Telephone Association, based on a preliminary view of local carrier data, estimated that allocating all Category 6 costs on the basis of subscriber line usage (SLU) (Plan 6D) would result in increases in the intrastate revenue requirement in rural areas of Alaska in the range of \$2.70 to \$20.27 per access line per month.^{25/} United Utilities noted that under Plan 6D, its revenue requirement would increase by \$101.55 annually per access line, or approximately \$8.46 per access line per month.^{26/}

The State's analysis confirms that each of the proposed alternative plans would involve a substantial change in jurisdictional revenue requirements. If all Category 6 costs were allocated on the basis of SLU (Plan 6D), the data submitted by Alaska carriers show that intrastate revenue requirements on a per loop per month basis would increase from a low of \$2.67 (for Matanuska Telephone Association and General Telephone Co. of Alaska) to as much as \$17.12 (for Yukon Telephone Company). See Attachment A.

^{24/} Compare AT&T Comments at 21, with Comments of the Alaska Telephone Association at 7 & n.7 (August 11, 1986) (ATA Comments).

^{25/} ATA Comments at 6.

^{26/} United Utilities Comments at 7. For Plan 6B, United Utilities shows an annual per access line shift to the intrastate jurisdiction of \$90.12 (\$7.51 per month); and for Plan 6C of \$81.68 (\$6.82 per month). Even under Plan 6E, the shift would be \$44.18 (\$3.68 per month).

Under Plan 6D, 11 of the 16 carriers would have increases in per access line per month intrastate revenue requirements above \$8, and 4 would have increases over \$16 per access line per month.^{17/}

Attachment A shows that the effects of Plans 6B^{13/} and 6C^{13/} would be similar. Under Plan 6E, the effects, while still dramatic, are somewhat less large, because of its use of weighting factors for smaller companies.^{10/} Other data show that for Alaska carriers surveyed, the average per loop per month shift to the intrastate jurisdiction would be \$3.61 (the national average would

^{17/} Compare, for example, Reply Comments of the Kansas Corporation Commission Staff, CC Dockets 78-72 and 80-286, at 3 (October 9, 1986) (Kansas Staff Reply Comments). The maximum shift for the 22 surveyed carriers serving Kansas, under Plan 6D, would be \$4.92 per loop per month. Id.

^{13/} Under Plan 6B, the shifts would range from a low of \$2.24 per loop per month (for General Telephone Company of Alaska) to \$16.36 (for Interior Telephone Company). Of the 16 companies, 11 would have shifts above \$7 per loop per month, and 3 would have shifts above \$15 per loop per month. See Attachment A. In contradistinction, the maximum shift for a surveyed Kansas carrier would be \$4.38 per loop per month. Kansas Staff Reply Comments at 3.

^{13/} Under Plan 6C, the shifts would range from a low of \$1.95 per loop per month (for Matanuska Telephone Association) to \$16.79 (for Yukon Telephone Company). Of the 16 companies, 11 would have shifts above \$6 per loop per month, and 3 would have shifts above \$13 per loop per month. See Attachment A. In contradistinction, the maximum shift for a surveyed Kansas carrier would be \$3.11 per loop per month. Kansas Staff Reply Comments at 3.

^{10/} Under Plan 6E, the shifts would range from a low of \$0.78 per loop per month (for Arctic Slope Telephone Association) to \$22.47 (for Sitka Telephone Company). Of the 16 companies, 9 would have shifts above \$5 per loop per month, and 2 would have shifts above \$13. See Attachment A. In contradistinction, the maximum shift for a surveyed Kansas carrier would be \$1.88. For one Kansas carrier, Plan 6E would result in an increased allocation to the interstate allocation of \$1.20 per loop per month. Kansas Staff Reply Comments at 3.

be \$0.53); under Plan 6C would be \$3.36 (the national average would be \$0.44); under Plan 6D would be \$3.77 (the national average would be \$0.79); and under Plan 6E would be \$3.07 (the national average would be \$0.42).^{11/} For each of these plans, the impact is greater on Alaska than on any other state.^{12/} Under any of the alternative plans, it is clear that huge shifts in jurisdictional separations would result and that universal service would be severely harmed.

For all of these reasons, the State believes that the present distinction between NTS and TS costs, and the allocation of NTS costs on the basis of SPF and not a usage-related factor, should not be changed.

C. The Appropriate Usage Related Factor To Apply To Traffic Sensitive Costs Is Busy Season, Busy Hour Completed Calls Weighted By Office Size.

Although the State believes the NTS/TS distinction should be retained, and that NTS costs should be allocated on the basis of SPF, it does not disagree with the proposition that traffic sensitive costs should be allocated on the basis of a usage-related factor. Most of the comments suggested that subscriber line usage

^{11/} Summary Reports of COE Data For Local Exchange Carriers Submitted to the Joint Board in CC Docket 80-286, Summary Report: 8C.

^{12/} Under Plan 6B, the state on which the impact is next greatest is Nevada, \$2.35 per loop per month; under Plan 6C, Nevada, \$2.08 per loop per month; under Plan 6D, Nevada, \$2.69 per loop per month; and under Plan 6E, also Nevada, \$1.45 per loop per month. Id.

(SLU), dial equipment minutes (DEM) or some variant of them be used as the TS allocator. A proper application of cost causation principles, however, requires use of an allocator not suggested by the Joint Board -- weighted busy season, busy hour completed calls, with weights inversely related to office size.

Completed calls, rather than some allocator based on call minutes (e.g., SLU or DEM) is the appropriate basic allocational unit, because Category 6 COE performs switching functions. By and large, the costs of actually switching a call are the same whether a call is one minute or ten minutes in duration.^{11/}

Busy season, busy hour calls, rather than all calls, should be employed because traffic sensitive equipment are engineered to meet busy season, busy hour traffic requirements. In the past, the Commission has refused to adopt busy hours as the relevant

^{11/} Theoretically, all calling activity -- both completed calls and call attempts -- should be used as the basic allocational unit, because switching equipment is used for attempted calls as well as completed calls. Employing a factor which includes unsuccessful call attempts, however, would not be sound. First, while billing records provide a readily available source of completed call data for at least toll calls, there is no ready available existing source of data for call attempts. Collecting such data would be an additional burden on exchange companies. Second, although there need not be perfect symmetry between cost allocation and cost recovery, some close relationship is useful. Given that it is neither regulatory policy nor industry custom to charge for attempted calls, it does not appear appropriate to allocate costs based on that factor. Third, there is no reason to believe that the use of attempted calls in cost allocation procedures would have any significant effect. It is likely that the ratio of unsuccessful to successful call attempts for interstate calls is not significantly different than the ratio for intrastate calls. There is, therefore, no reason to complicate the separations procedure by adding unsuccessful call attempts to the calculus.

time period for allocational studies. It concluded that the difference between a busy hour period and other periods is not sufficiently significant to require use of busy hour data. While this conclusion may be correct for some parts of the country, it is likely to be incorrect for the eastern and western parts of the country. For example, businesses in the Eastern and Pacific (even without regard to Alaska) time zones generally may communicate with each other only during the relatively limited portions of day which fall within the business hours of both the calling and called parties.^{14/} Traffic sensitive equipment must be designed with the busy season busy hour load in mind.^{15/} Thus, to allocate costs for equipment which is designed for busy hour loads on any basis other than busy hour calls would not be cost causative.

Completed busy season, busy hour calls, however, is not, by itself, an adequate allocator of traffic sensitive costs. Interstate calls should be weighted more heavily than intrastate calls because of the additional costs incurred in switching an interstate call. See Attachment B. This is particularly (but not exclusively) true in the 24 states like Alaska which have only one area code. In addition, the extent to which interstate calls cost more to switch on a cost per call basis depends, in significant part, on the size of the local switching office. This is so

^{14/} This limitation is particularly severe in Alaska, where the time difference between most of the State and East Coast is 4 hours.

^{15/} See, e.g., Comments of Anchorage Telephone Utility at 6 (July 19, 1985) (ATU Comments); Comments of Mountain Bell Telephone et al. at 11-12 (July 19, 1985).

because much Category 6 COE does not come in small units of capacity. Generally speaking, for example, in central offices with digital and stored program analog switches, the smallest switching network that can be purchased is of a size capable of handling approximately 800 access lines. Costs for switching networks are, therefore, fixed for any office under 800 lines. For these reasons, the State believes that call weighting factors related to office size are consistent with cost causation principles and should be employed.^{15/} The weights set forth in the Joint Board's proposed Plan 6E, however, are inadequate. The State suggests that the Joint Board consider applying greater weights to interstate calls, such as the following, for example:

<u>Office Size -- Number of Access Lines</u>	<u>Interstate Weighting Factor</u>
0-1000	3.5
1001-2000	3.0
2001-3000	2.5
3001-5000	2.0
5001 +	existing weighting factors

Of course, determination of whether these call weighting factors are adequate cannot be made without application of them to the circumstances of specific exchange carriers. But use of an allocator derived by applying weighting factors such as these to busy season, busy hour completed calls, for the reasons set forth

^{15/} Currently, in allocating traffic sensitive costs, size related weights are used with respect to some types of central offices but not with respect to others. See Comments of the United States Telephone Association at Attachment B (July 11, 1986).

above, will allow a cost causative separation of traffic sensitive costs.

D. Exchange Carriers With High Category 6 COE Costs Should Receive High Cost Support Analogous To The Support Received For High Local Loop Costs.

In prior actions in this docket, the Commission adopted the recommendations of the Joint Board to provide cost support to exchange carriers with high NTS local exchange plant costs. Carriers with high unseparated NTS local loop costs can allocate varying percentages of those costs which exceed 115 percent of the national average for unseparated NTS loop costs per working line directly to the interstate jurisdiction. For study areas reporting 50,000 or fewer working loops, such cost support is accorded for 50 percent of the costs between 115 percent and 150 percent of the national average and 75 percent of the costs in excess of 150 percent of the national average.^{11/} For larger study areas, cost support is accorded for 25 percent of the costs between 115 percent and 150 percent of the national average and 75 percent of the costs in excess of 150 percent of the national average.^{12/}

Several carriers^{13/} have commented that exchange companies with high Category 6 COE expenses should not be entitled to high cost support, because, among other reasons, high Category 6 COE

^{11/} 47 C.F.R. § 67.631(a).

^{12/} 47 C.F.R. § 67.631(b).

^{13/} See, e.g., NYNEX Comments at 25; Ameritech Comments at 19.

costs are avoidable and, unlike high local loop costs, are not due to geography, low population density, or other factors beyond the control of local exchange companies.

Certainly in Alaska, this is not correct. Communities in Alaska are extraordinarily widely scattered, and geographically compact. Telephone systems in such communities are, unlike those in small remote communities located elsewhere, characterized by relatively short amounts of outside wiring or subscriber loops, with concomitantly relatively low local loop costs, and remote central offices, with unavoidably high COE costs. The small population base of these communities means that these COE costs are particularly high on a per subscriber loop basis.

In fact, Category 6 COE NTS costs per subscriber loop are higher in Alaska than in any other state. If the data submitted to the Joint Board by the four exchange carrier trade associations on October 14 1986 is accurate, Category 6 NTS investment in Alaska is \$256.93 per loop, three times the national average. In no other state does Category 6 NTS investment exceed \$200 per loop.^{10/}

On a nation-wide basis, as data submitted in this proceeding show, total Category 6 COE investment (NTS and TS) amounts to approximately \$300 per loop. In Alaska, the average is more like \$500 per loop.^{11/} For many telephone companies serving remote

^{10/} Summary Reports of COE Data for Local Exchange Carriers Submitted to the Joint Board in CC Docket 80-286, Summary Report 6C.

^{11/} Id., Summary Report 6A.

areas of Alaska, Category 6 COE investment exceeds \$1000 per loop.^{42/} There is no justification for treating these companies differently than companies with high NTS local loop costs. Indeed, different treatment would discriminate against ratepayers in remote Alaskan communities merely because they lived in communities where physical characteristics meant local loops were relatively short and COE fixed costs, accordingly, relatively high.

It should be noted that a number of carriers agree that if cost support is needed (and the data set forth above indicate it is), a mechanism separate from the high loop cost fund should be recommended.^{43/} The suggestion has been made that assistance be determined on the basis of a comparison of individual company impacts with national average impact of Category 6 separation procedure changes on a per subscriber loop basis.^{44/} The State believes it is preferable (and simpler) to use a mechanism similar to that used for high local loop costs, that is, one based on percentages in excess of national per loop averages for unseparated costs.

It should be recognized that the particular mechanism for Category 6 cost support may need to be varied, depending on whether other changes in Category 6 separations procedures are

^{42/} These companies include Interior Telephone Company (\$1109 per subscriber loop); United Utilities (\$1345 per subscriber loop); Bush-Tel (\$1422 per subscriber loop); Mukluk Telephone Company (\$1697 per subscriber loop); and Sitka Telephone Company (\$1063 per subscriber loop). See Attachment A.

^{43/} See, e.g., AT&T Further Comments at 17-19.

^{44/} Id. at 19.

implemented. Unseparated Category 6 COE costs would be the appropriate basis for Category 6 high cost support, particularly if the NTS/TS distinction is modified or SPF is no longer used. If SPF continues to apply to approximately the same proportion of Category 6 costs as it presently does, using unseparated Category 6 costs as the basis for high cost support could result in some companies having a negative Category 6 intrastate allocation. In the event SPF continues to be employed to allocate a relatively unchanged percentage of Category 6 COE, it would, therefore, make more sense to base high cost support on separated, intrastate Category 6 expenses.

III. COE CATEGORY 8 SEPARATIONS PROCEDURES

A. Overview Of The Existing Procedure And The Critical Issue Raised By The Joint Board's Suggested Alternatives.

The major portion of Category 8 COE -- interexchange circuit equipment -- is allocated to the interstate or intrastate jurisdiction based on a formula that includes a distance-related factor -- conversation minute miles (CMM). Some telephone carriers have argued in their comments that interexchange circuit costs in an era dominated by satellites are not distance sensitive and that, as a result, distance should not be a factor in allocating these Category 8 costs.

Some of the plans proposed by the Joint Board divide Category 8 equipment into two types: termination equipment and line haul equipment. Termination equipment is defined as equipment that is

not distance sensitive.^{45/} Conversely, line haul equipment is defined as equipment for which costs are distance sensitive.^{46/} All of the alternative plans propose to remove distance as a factor in allocating the costs of termination equipment. Under Plan 8D, distance would also be removed as a factor in allocating line haul costs.

The impact of the various proposed Category 8 alternatives on Alaska telecommunications must be assessed in the light of the unique manner in which Alaska telecommunications services are provided. First, to the State's knowledge, Alaska is the only state in which interexchange intrastate service is furnished by use of satellite. Second, Alaska is the only state in which intrastate interexchange service is provided solely by an entity which does not provide local exchange service. For these and other reasons, the impact of proposed changes in Category 8 separations procedures is very different for local exchange companies than it is for an intrastate interexchange service provider, and very different for Alaska than it is for other states.^{47/}

^{45/} The proposed glossary definition for termination equipment is "[i]nterexchange circuit plant, the cost of which is generally not distance sensitive." Order, Appendix C at 9.

^{46/} The proposed glossary definition for line haul equipment is "[i]nterexchange circuit plant, the cost of which is generally distance sensitive." Id., Appendix C at 8.

^{47/} At present, only Alascom, Inc. (Alascom) is authorized by the Alaska Public Utilities Commission (APUC) to provide intrastate interexchange service. An application for authority to provide intrastate interexchange service was submitted to the APUC on September 12, 1986 by General Communication, Inc. (GCI), and is pending.

For most exchange carriers, including many in Alaska, it appears that adoption of any of the proposed alternative plans would not create a significant shift in revenue requirements. The separations results of each of the alternative Category 8 proposed plans are the same for a local exchange carrier that consists only of end offices that have a single toll route to a connecting company. Many, but not all, Alaska exchange companies fit that description.

For Alascom (the Alaska intrastate interexchange carrier) and Alaskan citizens, the impact of the proposed changes in Category 8 separations procedures would be very different and adverse. Data submitted to this Joint Board indicate that Alascom's intrastate revenue requirement would increase \$21.6 million per year under Plan 8B; \$42.0 million per year under Plan 8C; and \$50.5 million per year under Plan D.^{18/} Changes in Category 8 procedures would also have a seriously adverse effect on Alaskan exchange carriers with significant satellite earth station costs.

For Alaska, therefore, the alternative Category 8 plans offered by the Joint Board raise one fundamental issue:

If Category 8 separations procedures are revised, what special provisions should be made for Alaska because of the extreme and unique effect such revisions would have on telecommunications service and the achievement of universal service in Alaska?

^{18/} Alascom, Inc. data submission, Appendix A at 12-13 (October 14, 1986).

B. If Category 8 Separations Procedures Are Revised, Steps Must Be Taken To Avoid Massive Allocational Shifts To The Intrastate Jurisdiction In Alaska.

As the Florida Public Service Commission recognized in its comments, adoption of any of the revised Category 8 separations procedure options would have a uniquely adverse impact in Alaska.^{43/} The data submitted by Alascom confirm that the impact of the revised procedures would be devastating. Currently, Alascom's annual intrastate revenue requirement for Category 8, as reported to the Joint Board, is approximately \$23.6 million.^{50/} If Plan 8B were adopted, that revenue requirement would approximately double, to about \$45 million.^{51/} If Plan 8C were adopted, the intrastate revenue requirement would grow to approximately \$65.6 million.^{52/} If Plan 8D were adopted, that revenue requirement would be more than tripled, to approximately \$74.1 million.^{53/}

The magnitude of this shift is best understood if measured on a per access line basis. There are approximately 250,000 access

^{43/} Supplemental Comments of the Florida Public Service Commission at 4-5 (September 11, 1986).

^{50/} Alascom, Inc. data submission, Appendix A at 9 (line 00).

^{51/} Id., Appendix A at 9, 12-13. This figure adds the \$21.6 million decline in Alascom's interstate revenue requirement under Plan 8B to the current intrastate revenue requirement.

^{52/} Id. This figure combines the \$42.0 million decline in Alascom's interstate revenue requirement under Plan 8C with the current intrastate revenue requirement.

^{53/} Id. This figure combines the \$50.5 million decline in Alascom's interstate revenue requirement under Plan 8D with the current intrastate revenue requirement.

lines in Alaska. The approximate annual increase in intrastate revenue requirements per line for each alternative plan is:

Plan 8B	\$85.90
Plan 8C	\$167.50
Plan 8D	\$201.50

This massive jurisdictional shift will occur in Alaska, and likely only in Alaska, for a number of reasons. First, as noted above, to the State's knowledge, Alascom is the only intrastate carrier that uses satellites to transmit a substantial number of intrastate calls and is, therefore, the only intrastate interexchange carrier with satellite costs as a significant part of its intrastate rate base. Second, the significant costs of installing interexchange equipment, including (but not limited to) satellite equipment, are greatly increased by the great distances between Alaska communities. Third, because of the remoteness of facilities locations, the difficult and varied terrain, and the harshness of the Alaskan climate, the costs of maintaining Category 8 equipment are much higher in Alaska than they tend to be in other states. Fourth, because of the relatively few access lines in Alaska, those costs are particularly high on a per access line basis.

Further, as discussed by United Utilities in its comments, changes in Category 8 procedures would also adversely affect it.^{54/} The Commission approved the joint licensing of satellite earth stations to Alascom and local exchange carriers serving

^{54/} See Comments of United Utilities, Inc. at 1-3 (September 12, 1986).

remote portions of Alaska. In so doing, the Commission recognized that removing distance as a factor in separating the costs of that equipment would result in a "substantial and unintended" increase in intrastate revenue requirements for these exchange carriers and it approved the continued use of the CMM factor in an effort to maintain reasonably affordable telephone service in rural Alaska.^{55/}

The impact of the staggeringly large increases in intrastate revenue requirements for affected Alaskan carriers that would result from adopting any of the proposed Category 8 plans would be devastating to attempts to attain and maintain universal service in Alaska. As the State noted in reply comments filed before this Joint Board earlier this month, the struggle to achieve and maintain universal service is an ongoing one in Alaska.^{56/} Telephone subscribership in Alaska is among the lowest in the country. Adoption of any of the Category 8 proposals would likely double or triple Alascom's intrastate revenue requirement. The result would be huge increases in intrastate rates. Such increases would affect interstate service usage for Alaska interstate carriers as well, creating further separations issues and potential problems for achievement of universal service. The revenue requirements

^{55/} Memorandum Opinion and Order, CC Docket 80-584, FCC Mimeo 86-68 (February 25, 1986) (Bush Reconsideration I); further reconsideration denied, Memorandum Opinion and Order, CC Docket 80-584, FCC Mimeo 86-439 (October 24, 1986) (Bush Reconsideration II).

^{56/} See Reply Comments of the State of Alaska, CC Dockets 78-72 and 80-286 (October 9, 1986).

and rates of exchange carriers in rural Alaska, which need earth stations to communicate effectively with the rest of Alaska and the Nation, would also be likely to increase markedly. Universal service, a primary policy goal of the Commission as well as the Joint Board, would be undermined.

If the Joint Board determines that changes in Category 8 procedures must be made and that such changes do not create massive jurisdictional shifts or impair universal service in the rest of the fifty states, equity and comity nonetheless require that special steps be taken so that telephone service in, to, and from Alaska is not impaired. The State believes that the Joint Board and the Commission can and should accomplish with respect to Alaska what is accomplished for other states -- procedures that foster and maintain universal service. To do otherwise would be to adopt a policy that uniquely -- and unnecessarily -- discriminates against Alaska and creates in Alaska alone conditions which are inconsistent with the universal service policy and the public interest.

In order that Alaska be treated like other states, special provisions must be made for it. "Make-whole" policies would allow the Nation to benefit from both separations reform and further universal service in the Nation and Alaska.

Even AT&T, which has argued in this and the Alaska Joint Board that distance must be removed as a factor in Category 8 separations, has recognized the adverse potential effects of such a

step.^{57/} AT&T has noted that "a variety of means may be available to avoid undue rate pressures on subscribers in Alaska."^{58/} The State urges that such means be considered, and that this consideration go well beyond a "short transition" period to respond to particular hardships that might result from changes in separations rules that AT&T suggests.^{59/} Such a step would be inadequate to remedy the harm massive jurisdictional shifts would cause.^{60/}

The Alaska Joint Board should be asked to participate in evaluating and recommending these suggested special provisions, and to do so in conjunction with its consideration of other issues in that proceeding. Given the magnitude of proposed Category 8 changes, their likely impact, and the fact that the treatment of distance in separations has been put in issue in that proceeding,^{61/} the task of the Alaska Joint Board would be made extraordinarily complex, if not impossible, without such coordination

^{57/} See, e.g., AT&T Further Comments at 19-22.

^{58/} Id. at 21.

^{59/} Id. See also Supplemental Comments of AT&T Concerning Category 8 COE at 7 (September 12, 1986) (AT&T Supplemental Comments).

^{60/} In this regard, it should be noted that Alascom, in earlier comments, estimated that a \$40 million shift to intrastate revenue requirements would add a burden of \$180 per access line on Alaska ratepayers, and save United States interstate ratepayers an average of only approximately \$0.20 per year. Preliminary Reply Comments of Alascom, Inc. at 3 (August 16, 1985).

^{61/} See, e.g., Order Requesting Data and Inviting Comments, CC Docket 83-1376, at ¶ 22 (May 9, 1986).

and consultation.^{62/} The Alaska Joint Board should not be forced to make recommendations after a fait accompli, that is, after a transition period has been initiated, as AT&T suggests, or after a decision has been made which would either have to be undone or which would eliminate options available to it to resolve the important and difficult issues it is facing.

^{62/} AT&T appears now to agree that consideration of this issue, including special relief, by the Alaska Joint Board is appropriate. AT&T Supplemental Comments at 7.