

February 22, 2005

Commissioner Kate Giard, Chair
Regulatory Commission of Alaska
701 West Eight Avenue, Suite 300
Anchorage, Alaska 99501

RE: United Utility's Request for Supplemental Funding

Dear Ms. Giard:

I am writing on behalf of AT&T Alascom to provide comments in response to United Utility Inc's ("UUI") supplemental funding request of \$4,661,000 from the Rural Alaska Broadband Internet Access program. UUI's supplemental request should be denied as it is a substantial modification of its original bid. It creates a duplicative interexchange network and as such, creates a dis-incentive to private investment in the state's telecommunications infrastructure. Use of public funds for the creation of such infrastructure is a misappropriation of the grant program's limited resources, and ultimately leads the state to greater dependence on federal subsidy to support its infrastructure – a position which AT&T Alascom eschews. While AT&T Alascom realizes that the comment period for this supplemental request has passed, we offer these remarks in the hope that the RCA will incorporate them in its deliberations on UUI's funding request.

First, the \$4.661M increase raises the project cost to \$7.2M and represents a 184 percent cost increase over the \$2.5M that was originally awarded. Requests for supplemental funding of this magnitude should be rejected based on the fact that they are material changes to the original award and call into question the ability of the UUI to efficiently and economically manage a project of this magnitude. Not only should the supplemental request of \$7.2M be rejected, the initial grant of \$2.5M should be reconsidered as UUI may not be able to provide the services promised under the initial grant request if UUI cannot secure the supplemental funding.

Second, the development of an interexchange microwave network (under the guise of being necessary to provide broadband internet service) is an inappropriate use of the grant that falls well outside the scope of supporting the expansion of internet and broadband services to rural Alaska. A simple evaluation of the supplemental request (See, Exhibit 3 of UUI's Supplemental Funding Request, dated September 28, 2004)

finds that none of the \$7.2M will be used to purchase routers, multiplexers or wireless equipment which directly support village broadband internet service. Instead the \$7.2M is being spent on towers and buildings that will duplicate the transport function of AT&T Alascom's interexchange system which can currently support broadband internet service. In its supplemental request UUI claims that the microwave system will be more reliable than the current satellite system used by IXCs in that region; however, UUI does not inform the RCA that at some point in the transmission of broadband internet service, the signal needs to traverse a satellite system to reach the internet's closest point of presence which is in Anchorage. In other words, the UUI microwave system will create an island of relatively high capacity but still needs to connect to a satellite system to reach information sources that reside outside the 13 village microwave system. The issue here is that while connectivity among the 13 villages may be enhanced by the microwave system, the \$7.2M does nothing to enhance connectivity between UUI's network and the rest of the internet's transport system. Thus, while the microwave system may provide enhanced intra-region service using an *intra-net* linking 13 village health clinics, as an example, the microwave system will do nothing to enhance *internet* service between the Bethel regional hospital and medical experts located in Anchorage, Seattle, or elsewhere. UUI's stated purpose is to provide broadband internet service; its real purpose, however, is to build a microwave system with public funds that will compete against existing, privately funded long distance interexchange networks that are capable of providing broadband service. UUI's duplicative network, funded by public money will compete against AT&T Alascom who has Carrier of Last Resort responsibilities and no subsidies. UUI's network will leave stranded AT&T Alascom's assets that were developed with private investment. Stranding assets which could provide broadband services should not be the result of the USDA grant program.

The RCA also needs to be aware of the fact that the UUI microwave network will enable UUI to finally perform on a Rural Health Care contract with the Yukon-Kuskokwim Health Corp. ("YKHC") that they won in a separate bidding process in 2003. UUI's supplemental request will result in public money from one source (i.e. USDA's grant program) being used to support YKHC's wide area network that is subsidized from another public source (USAC). This type of "double dipping" is wholly inappropriate and will serve as fodder for those who wish to halt the use of public funds for universal service or the development of broadband infrastructure in rural regions.

Last, spending \$7.2M, or almost half of the program's total available funding, to provide broadband service to 13 villages is an inherently inefficient use of limited USDA funding. By Alascom's internal estimates, \$7.2M of capital could effectively support broadband development in approximately 60 villages. The opportunity cost of this grant is the lost ability to provide broadband service to as many as 47 other villages. Instead of providing broadband service to as many villages as possible, the \$7.2M

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request by UUI will duplicate AT&T Alascom's interexchange network that is already capable of supporting broadband service to the 13 villages listed by UUI. It will also concentrate almost 50% of the program's funds to one region of Alaska. This is neither efficient nor equitable.

For the reasons stated above, AT&T Alascom opposes UUI's supplemental grant request and believes that the RCA should reject UUI request. Use of public money to build facilities that compete with private investment is a substantial dis-incentive to private investment by companies such as AT&T Alascom, and runs the risk of taking Alaska's infrastructure in the direction of increased dependence on federal subsidy, rather than decreased dependence on federal subsidy. UUI's supplemental request requires close scrutiny and ultimate rejection. The benefits of the USDA's funds can be put to better use on projects that supplement private investment rather than competing against it. This, we feel, will produce more wide-spread benefits than UUI's proposal.

Respectfully,

A handwritten signature in black ink, appearing to read 'Mark J. Vasconi', with a long horizontal flourish extending to the right.

Mark J. Vasconi
AT&T Alascom