

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

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing an Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Lifeline and Link-Up	)	WC Docket No. 03-109

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**Comments of the  
Regulatory Commission of Alaska**

Date: April 18, 2011

Robert M. Pickett, Chairman

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**Comments of  
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The Regulatory Commission of Alaska (RCA) appreciates the opportunity to file comments in response to the FCC11-13 *Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking* (NPRM) concerning the Connect America Fund (CAF), universal service fund (USF) issues, and intercarrier compensation (ICC) mechanisms.<sup>1</sup> The FCC proposes numerous reforms to

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<sup>1</sup> *In the Matter of Connect America Fund*, WC Docket No. 10-90, *A National Broadband Plan for Our Future*, GN Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *High-Cost Universal Service Support*, WC Docket No. 05-337, *Developing an Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Lifeline and Link-Up*, WC Docket No.

“modernize and refocus USF and ICC to make affordable broadband available to all Americans and accelerate the transition from circuit switched to IP networks, with voice ultimately one of many applications running over fixed and mobile broadband networks.”<sup>2</sup> Many of the FCC’s proposals would have serious consequences for both existing voice services and deployment of broadband capable networks in Alaska. In general, the proposed transition to the CAF will not adequately support Alaska’s high cost service areas. We therefore support establishing alternative rules and funding mechanisms to accommodate areas having unique challenges to deployment of broadband services such as those existing throughout Alaska, an area historically viewed by the FCC as Tribal Lands. Our comments on the NPRM proposals support our contention that Alaska is an area in need of special consideration if we are to preserve existing voice services and achieve the level of broadband services foreseen by the CAF. We also comment on certain proposals that are unsuitable for Alaska under any plan.

### **Universal Service Fund Reforms**

#### ***1. Alaska providers face many unique and unusual factors that make provision of voice and broadband services exceedingly difficult absent federal funding.***

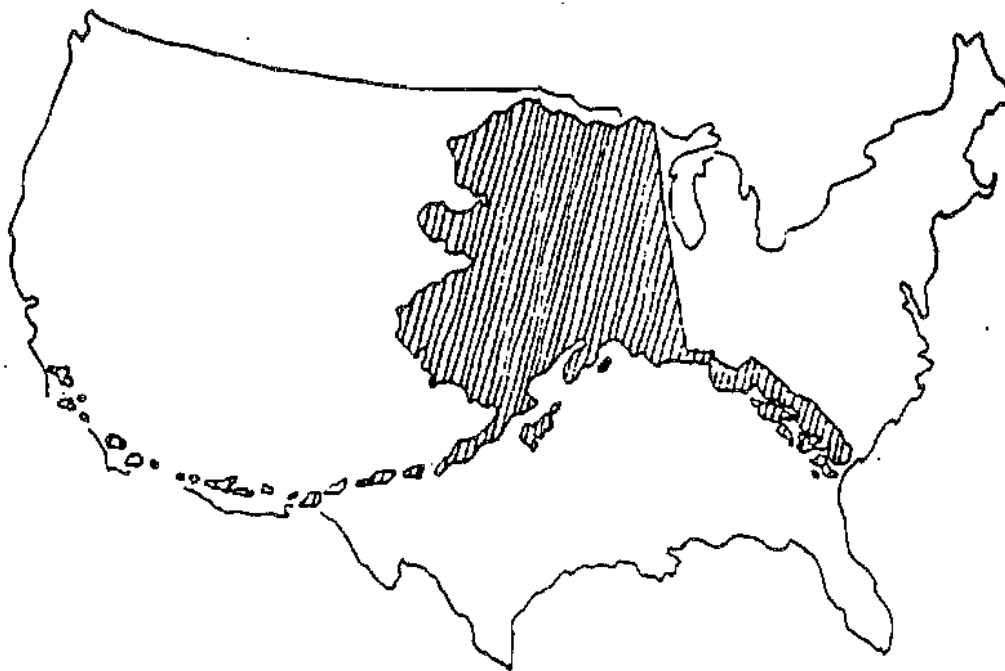
We begin our comments by explaining the unique aspects of Alaska that are especially important for consideration in the FCC’s proposed transition to the

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03-109, Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, FCC 11-13, released February 9, 2011. 76 Federal. Register. 11632 (March 2, 2011).

<sup>2</sup> NPRM at 10.

CAF. The State of Alaska is the largest state in the union, covering 570,374 square miles, or roughly one-fifth of the total land area of the continental United States.<sup>3</sup> From north to south, Alaska measures 1,420 miles, about the distance between Denver, Colorado and Mexico City, Mexico, and from east to west it measures nearly 2,400 miles, about the distance from Savannah, GA to Santa Barbara, CA. The map below, an overlay of Alaska onto the Continental United States, puts into perspective the vast distances covered by the state.<sup>4</sup> The attached Exhibit 1 includes additional characteristics of Alaska as an arctic region.<sup>5</sup>



It is not uncommon for an incumbent local exchange carrier to serve numerous small exchanges, none of which are contiguous, with a service area of

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<sup>3</sup> 2010 U.S. Census data at <http://quickfacts.census.gov/qfd/states/02000.html> .

<sup>4</sup> CC Docket No. 83-1376, *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*, Response of the State of Alaska to Order Requesting Data and Inviting Comments, at Section A, page 1. (State of Alaska Response)

<sup>5</sup> Alaska Regional Profiles sponsored by the State of Alaska.

over a thousand square miles. The vast size of Alaska and the distance that must be traversed to reach customers, even without considering other factors such as topography and weather, create immense barriers to provision of voice and broadband services. At the same time, voice and broadband communications are keys to surmounting the many economic, health and social challenges that distance and isolation impress upon those living in Alaska, especially rural Alaska.

While Alaska is the largest state in the union, Alaska has and supports a total population of merely 710,231 people.<sup>6</sup> Alaska's average population density is 1.2 persons per square mile. If Manhattan Island had the same population density as the state of Alaska, 28 people would live there.<sup>7</sup> The vast majority of rural villages and communities in Alaska have such low populations (most are under 2,000) that few businesses would be motivated, without the prospect of Universal Service Fund support to build telecommunications facilities in the state.

#### Alaska Access Lines per Exchange

Access Lines	Number of Exchanges	Percent of Total
50,000 or more	1	0.4%
5,000 to 49,999	12	4.9%
1,000 to 4,999	28	11.5%
500 to 999	7	2.9%
250 to 499	22	9.0%
100 to 249	73	29.9%
50 to 99	52	21.3%
Under 50	49	20.1%
Total:	244	100.0%

<sup>6</sup> 2010 U.S.Census data at <http://2010.census.gov/2010census/data/>

<sup>7</sup> <http://en.wikipedia.org/wiki/Manhattan> shows size of Manhattan as 22.96 square miles.

The road system in Alaska is very limited, and as a result, there are over 200 remote rural locations that are accessible only by air, water or snowmobile.<sup>8</sup> Work projects often require crews to be flown in from over one hundred miles distant.<sup>9</sup> In most rural areas virtually every piece of plant and all work equipment must be flown in, delivered by seasonal barge (for those places with water access) or delivered by “cat-trains” when the ground is frozen and snow covered. The lack of road access materially increases construction and maintenance costs. The logistics necessary to organize, deliver and house work crews, and provide service given the remoteness and arctic conditions increase corporate operations costs significantly.

Alaska capital and operating costs are significantly impacted by arctic conditions such as a) the duration of the winter as it affects and limits construction;<sup>10</sup> b) snow effects (e.g., snow cover, drifts, and loading);<sup>11</sup> c) wind load;<sup>12</sup> d) absolute temperatures (e.g., extreme cold leads to brittleness of many materials); e) “chill temperature” as it affects work crews in the field;<sup>13</sup> f) freeze-thaw cycles in the presence of moisture (e.g., frost heaves, pole jacking<sup>14</sup>); g) the

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<sup>8</sup> Alaska has 15,329 miles of road statewide. Alaska has one mile of road for every 38 square miles of land area. The U.S. average is less than one to one. State of Alaska Hazard Mitigation Plan 2010.

<sup>9</sup> Due to the size and sparse population of the state, it is not uncommon for a utility to base its operation from a regional hub that is far from the individual rural locations served by the utility.

<sup>10</sup> For example, there are some locations in Alaska where excavating and earthwork is limited to July and August. Exhibit 1 at 164.

<sup>11</sup> Evaluation of snow load is a standard design criterion in Alaska. See Environmental Atlas of Alaska, University of Alaska, Charles W. Hartman, Philip R. Johnson, at Plate 37 (1984).

<sup>12</sup> Arctic coastal wind speeds of 30 to 50 knots are common during winter months. Usually damage will not occur if buildings are designed for strong winds. Exhibit 1 at 19.

<sup>13</sup> In the Arctic, chill temperatures values are more important to biologic systems than the free air temperature. Cold winter temperatures coupled with strong winds produce chill temperatures that require extreme precautions before outdoor activity is conducted. Exhibit 1 at 15.

<sup>14</sup> This is a condition where objects such as telephone poles slowly rise out of the ground due to local soil conditions and the annual freeze/thaw cycle.

presence of permafrost; and h) storm frequency. Geography also plays a factor given Alaska has many mountainous areas, over 3,000 rivers, and 5,000 glaciers.<sup>15</sup>

In summary, the vast distances between cities and towns, the geography, the lack of roads, the low population, and extreme arctic weather conditions make the deployment and provisioning of telecommunications services extremely challenging and expensive. The unique challenges Alaska's service providers face lead to especially high costs for *both* capital expenditures and operating costs. Most rural locations in Alaska would likely not have voice services today, let alone broadband, absent federal funding.

The FCC's proposals raise issues that affect the survival of companies that have worked within the current USF and ICC rules to provide affordable and reliable telecommunications services to rural areas of Alaska. We urge the FCC to consider our comments and to conclude that Alaska will require special consideration or alternative funding if Alaskans are not to be left behind as too costly to be included in the CAF vision.

## ***2. Alaska should be included in any special circumstances afforded Tribal Lands and Remote and Insular areas under the CAF***

The FCC seeks comment on proposals to extend to Tribal Lands, remote and insular areas, separate funding, waiver, exemption, or special conditions for transition to and operation under the CAF.<sup>16</sup> We support such proposals as imperative to deployment of broadband in Alaska. We note that Alaska has been

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<sup>15</sup> State of Alaska Response, Section B, Page 6

<sup>16</sup> For example see NPRM ¶ 13, 101, 136, 151.

included in prior universal service programs and exemptions for Tribal Lands.<sup>17</sup> All parts of Alaska are included in the Alaska Native regions established pursuant to the Alaska Native Claims Settlements Act.<sup>18</sup>

In summary, Alaska faces unique challenges as described in the preceding section that contribute to inordinately high costs of providing voice and broadband services. We therefore urge the FCC to continue to include Alaska in any special circumstances that are adopted for Tribal Lands, and remote and insular areas under the CAF.

***3. Alaska providers will not be able to obtain support through the CAF transition phase reverse auctions.***

The factors discussed earlier make Alaskans highly dependent on telecommunications for contact with educational institutions, businesses, government, emergency services, and a variety of other critical services needed for economic development and to meet day-to-day needs. As a result, access to broadband is especially important to Alaska. The proposed first phase of the CAF however, will have the unintended consequence of denying Alaskans critical broadband support.

During the period of transition from the current USF high cost support mechanisms to the CAF, the FCC proposes to distribute support for broadband deployment through a reverse auction. All auction bidders across the nation will

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<sup>17</sup> See *Federal-State Joint Board on Universal Service; Promoting Deployment and Subscriberhip in Unserved and Underserved Areas, Including Tribal and Insular Areas*, CC Docket No. 96-45, Twelfth Report and Order, Memorandum Opinion and Order, and Further Notice of Proposed Rulemaking, 15 FCC Rcd 12,208 (2000); see also *High -Cost Universal Service Support; Federal-State Joint Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, Order, 23 FCC Rcd 8834 (2008).

<sup>18</sup> See attached Exhibit 4.



compete against each other for “the lowest amount of support they will need to provide service to unserved housing units.”<sup>19</sup> Given the very high costs to provide telecommunications and broadband services to noncontiguous, remote, and sparsely populated areas, bids to serve areas in Alaska will be among the highest cost per unit bids. It is extremely unlikely that Alaska providers will obtain support in the transition phase auctions. We also believe that the phase one CAF’s provision to fund only construction costs may discourage potential Alaska bidders.<sup>20</sup> Our concerns related to auctions apply to both the phase one CAF program and the subsequent CAF phases that rely on auctions.

***4. The FCC’s proposed high cost program reforms will likely increase consumer local exchange rates and state access rates significantly.***

Alaska is served by 24 incumbent local exchange carriers (ILECs), 23 of which are rural providers as defined by 47 U.S.C. § 153(37). With few exceptions, rural Alaska providers incur costs in excess of 115 percent of the adjusted national average cost per line and so rely on USF High Cost Loop Support (HCLS) to maintain and improve their networks and to provide services at rates that are reasonably comparable to rates in urban areas. Incumbent Alaska providers typically serve fewer than 20,000 access lines per study area and most qualify for Local Switching Support (LSS) to aid in recovery of their switching costs. Six rural Alaska incumbent providers receive Safety Net Additive (SNA) support.

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<sup>19</sup> NPRM ¶24.

<sup>20</sup> NPRM ¶261.

The NPRM proposed reforms to USF high cost support<sup>21</sup> would reduce projected 2011 support to Alaska incumbent carriers by roughly 30 percent as shown in Exhibit 2.<sup>22</sup> This exhibit also shows the estimated potential impact on monthly rates if HCLS factors are reduced and LSS is eliminated, assuming costs are passed on to local rates rather than state access rates. For many companies, local rates could increase by \$25 to \$300 per month. Exhibit 3 also shows that rates of incumbent carriers are currently relatively comparable to the \$15.47 nationwide average urban rate cited in the NPRM.<sup>23</sup> This will no longer be the case if the proposed reforms are implemented without replacement support.

Our analysis does not consider the impact of the corporate operating expense change in high cost support proposed by the FCC since we do not have available data to model that impact. We expect the impact will be significant given the higher than normal operating costs resulting from Alaska conditions. Also, we did not evaluate the impact on Alaska companies associated with the FCC proposal to combine the LSS and HCLS programs into one mechanism as that proposal lacked details. For example, the LSS and HCLS programs have different eligibility standards making it unclear which companies would qualify for merged funding.<sup>24</sup> Further, the FCC did not explain how jurisdictional

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<sup>21</sup> NPRM ¶¶21, and 158. The FCC proposes to reduce reimbursements through HCLS, eliminate SNA support and phase out LSS or combine it with HCLS.

<sup>22</sup> The table calculation is based on 2011 projected high cost support for Alaska of \$36,392,891 taken from the December 2010 Monitoring Report. Projected support after the proposed revisions is \$35,425,300, but does not consider proposed reductions to HCLS related to corporate operations expense.

<sup>23</sup> NPRM ¶172.

<sup>24</sup> LSS is available in study areas under 50,000 access lines while HCLS has a different access line limit.

separations procedures would be amended to accommodate the merging of the two programs given both programs are embedded in 47 C.F.R. Part 36.<sup>25</sup> We urge the FCC not to merge these two mechanisms absent further details on how it would work and careful evaluation of the potential impact on Alaska local carriers.

***5. The proposed reductions to HCLS unfairly discriminate against Alaska high cost areas.***

In proposing certain revisions to HCLS, the FCC assumes that current support is inequitably distributed and does not incent recipients to operate efficiently.<sup>26</sup> While the HCLS mechanism could be improved, the proposed changes to the HCLS will not necessarily lead to greater efficiency. Rather, these changes will unfairly disadvantage states such as Alaska that have legitimate high cost areas. The proposal to reduce the reimbursement percentages in HCLS calculation would effectively move support from the highest cost companies to medium cost companies regardless of whether the high cost companies need existing HCLS levels to meet universal service goals.<sup>27</sup> There is no evidence that the medium cost companies are more in need of support than the highest cost companies. Increasing support to the lower cost companies may actually lead to windfalls if the companies have already set their local rates to accommodate reduced levels of support under the HCLS cap.

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<sup>25</sup> See 47 C.F.R. 36.125 and 47 C.F.R. 36.601-631.

<sup>26</sup> NPRM ¶180

<sup>27</sup> Id. The FCC proposes to decrease reimbursement to incumbent LECs operating 200,000 or fewer loops from the current 65% reimbursement for loop costs exceeding 115% of the National Average Cost per Loop (NACPL) and the 75% support for loop costs above 150% of the NACPL percentages to 55% and 65% respectively.

The redistribution of support under this proposal varies in odd ways among individual companies in Alaska. Companies serving our denser, more “urban” (by our standards) areas would see substantial increases in funding (e.g., 226 percent for ACS of Alaska, Greatland study area). Our more rural, high cost companies would lose between 2 percent to 12 percent HCLS support. While funding for Alaska overall would be reduced, funding for states with historically lower costs would increase. For example, funding for Florida and Pennsylvania would increase by 31 percent and 47 percent respectively.<sup>28</sup>

The reforms lead to funding redistributions with apparently little to no detailed analysis of whether the HCLS retargeting is appropriate. From our perspective, this redistribution of support is not understandable or desired if the objective is furthering service availability to those least served today. Adding to Alaska’s disadvantage is the fact that Alaskan companies are unlikely to benefit from the phase one CAF auction program, eliminating that program as a source of revenue replacement.

***6. HCLS historical redistribution trends do not necessarily reflect inefficiencies in the system.***

The FCC expressed concern that HCLS is being distributed among fewer and fewer providers over the past few years.<sup>29</sup> We believe the reduction in HCLS beneficiaries is a logical result of the cap on HCLS support that artificially

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<sup>28</sup> The December 2010 Monitoring Report Table 3.31, data was used to determine revised HCLS support levels for each rural company by changing the HCLS payment percentages from current levels of 65%/75% to the proposed 55%/65% levels and then reducing the NACPL to preserve the total national HCLS support to rural companies.

<sup>29</sup> NPRM ¶177, 179.

inflates the National Average Cost per Loop (NACPL) used in calculating HCLS. First, the HCLS cap was developed based on the needs of the voice capable network of roughly a decade ago. It should come as no surprise that the level of funding provided under the HCLS cap is insufficient to support the universal service needs of a broadband capable network as incumbents upgrade their facilities. As demand for support increases, fewer companies can be funded under the cap. As a second point, the total HCLS support paid to ILECs has been going down since 2005.<sup>30</sup> Reduction in overall support levels would logically lead to fewer companies getting funding. It is also not reasonable to assume that line losses should always lead to materially reduced funding as incumbent LECs are often Carriers of Last Resort (COLR) that are required to maintain a network even if they lose access lines.

The FCC's assumption that all high cost providers are "padding" their costs to maintain high cost support is also unreasonable.<sup>31</sup> The FCC notes that carriers with study area costs per loop greater than 150 percent of the NACPL showed increasing investment in net plant even as they were losing access lines.<sup>32</sup> Instead of criticizing higher cost ILECs for investing in their networks, the FCC should seek to learn why lower cost carriers are not investing. The HCLS proposal could ultimately penalize carriers for investing in broadband capable network upgrades that enable provisioning of advanced services as a means of keeping and regaining customers while carriers with lower costs and less funding

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<sup>30</sup> See the December 2010 Monitoring Report, Table 3.15, which shows a drop in HCLS from \$3.17 B to \$3.02 B between 2005 and 2009.

<sup>31</sup> NPRM ¶177.

<sup>32</sup> NPRM ¶178.

are deferring construction. Carriers who failed to invest should not be rewarded with additional HCLS.

The FCC's proposal to further reduce HCLS ignores the fact that companies face high loop costs even after HCLS is applied. A company gets no loop support until its costs exceed 115 percent of the NACPL, or roughly \$44<sup>33</sup> per line per month, a high benchmark. Thus carriers serving the areas with loop costs that are 150 percent higher than the actual NACPL experience high costs even after support levels, which are reduced under this proposal, are considered.

***7. The proposed reductions to local switching support unfairly target highest cost areas.***

The FCC proposes to reduce or phase out LSS in part because some large, multi-study area companies may be exploiting the mechanism which was designed to ensure small companies could afford switching equipment.<sup>34</sup> This is tantamount to punishing the many due to the actions of a few. Small Alaska carriers serving remote locations with small populations rely on LSS for a significant portion of revenues. Reduction or elimination of LSS may jeopardize recovery of costs for circuit switches and could shift cost recovery to state access and the local jurisdiction. The impact of eliminating LSS on Alaska companies, as shown in Exhibit 2, illustrates that there remains a legitimate need for high cost switching support for companies serving small exchanges given their limited economies of scale. In Alaska our state USF contributes support above federal

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<sup>33</sup> The \$44 is derived by applying the NACPL (\$458.36) time the 115% eligibility limit under the HCLS formula and then dividing by 12.

<sup>34</sup> NPRM ¶21, 158, and 186

LSS levels to ensure these companies have affordable local rates and are not disadvantaged.<sup>35</sup> The FCC should not assume however that Alaska consumers and the Alaska USF can absorb additional levels of these costs should federal LSS be eliminated. The intrastate access reforms we have adopted in Alaska limit our ability to broaden the coverage under our Alaska USF. To the extent the FCC is concerned that larger companies are unduly profiting from the LSS, the FCC should consider placing company size limits on overall eligibility for LSS.

We stress that the FCC's proposed elimination or reduction in federal local switching support is likely to run contrary to the FCC's intercarrier compensation goals. Should federal LSS support be decreased, our current Alaska regulations could allow many of our companies to increase state switched access cost assignments (and potentially per minute access rates) to make up much of the difference.<sup>36</sup> Given the process time associated with changing state regulations, we would not be able to prevent potential increases in state access rates by adjusting our regulations before the 2012 proposed implementation date for LSS changes.<sup>37</sup>

The NPRM suggests that network changes, such as switch consolidation and upgrade to broadband, may reduce the need for LSS support. We do not believe this would be true in Alaska. Even with current levels of LSS, many rural

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<sup>35</sup> In 2010, the Alaska USF provided roughly \$1.44 M in high cost support for local switching above federal levels. Eligible companies obtain Alaska local switching support based on their relative percentage of exchanges that have small local calling areas (under 100 lines). Increases to the limit are paid through the Alaska Universal Service Fund "DEM" support mechanism.

<sup>36</sup> By statute, a local exchange carrier "may adjust its rates in conformance with changes in jurisdictional cost allocation factors" by either the FCC or our state commission. AS 42.05.381(f). The LEC must show various information to support the cost shift as provided under AS 42.05.381(f)(1-3).

<sup>37</sup> The process to change an Alaska regulation can take two years given procedural due process requirements in our state.

providers in Alaska lack the economies of scale and the financial capability to provide more than basic voice services. These carriers may be unable to fund upgrades to soft switches before their current circuit switches are fully depreciated.<sup>38</sup> Additionally, these rural providers are not able to share switching facilities or merge service areas as proposed in the NPRM due to the geographic isolation of their rate centers and the lack of affordable middle mile infrastructure.<sup>39</sup> In Alaska such switch consolidation would likely also be a poor economic choice as it would often require reliance on satellite links to the centralized switch. Satellite transport is typically expensive and if a double satellite hop<sup>40</sup> is needed to place a local call, call quality may be low due to latency. While switching consolidations may at times be a rational solution, it cannot be assumed that the numerous small switches located throughout Alaska can be readily consolidated in regional hubs to reduce costs and reliance on federal support.

In general, Alaska carriers serving very high cost areas have provided reliable service at reasonable rates using the USF support mechanisms available to them. To change the funding mechanisms that are enabling successful provisioning of telecommunications services in Alaska without providing an opportunity for carriers to obtain transitional funding, either through waivers or an alternative funding mechanism, will ultimately lead to degradation of services and potentially economic disaster for local companies.

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<sup>38</sup> NPRM ¶187.

<sup>39</sup> NPRM ¶159.

<sup>40</sup> One hop would be needed to link the remote customer to the centralized switch and the other hop would be needed to transport the call to the called party.



**8. The proposed reforms to limit support to one broadband provider will stifle deployment of wireless and advanced facilities in Alaska.**

Prior to designation of wireless providers as carriers eligible to receive universal service funding (ETCs), wireless services in Alaska were limited to a few populated areas. There was no business case for deployment of wireless facilities to remote communities with small populations and harsh weather conditions that made construction and maintenance of facilities very expensive. Satellite middle mile transport, where available, significantly inflated the costs to provide wireless services in remote rural areas. With access to USF high cost support, wireless ETCs have made wireless services available for the first time to consumers in many, though not all, rural areas of the state.

Proposals to phase out high cost support to competitive ETCs and replace it with the proposed CAF support will jeopardize wireless deployment in Alaska. Transitioning USF to a market driven CAF support mechanism makes little sense for areas where no market exists or where costs are so high that bidders would have little chance of competing under the reverse auction.<sup>41</sup> The CAF proposal would also limit funding to one carrier regardless of technology.<sup>42</sup> In most cases, that may be the wireline carrier, as many areas of Alaska are yet to be fully served by wireless carriers, and the wireless carriers may have limited broadband capabilities. Wireless providers have also previously commented that proposals to eliminate or reduce competitive ETC support such as those in the

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<sup>41</sup> NPRM ¶10, 21.

<sup>42</sup> NPRM ¶ 264.

NPRM<sup>43</sup> will create financial uncertainty and will deter them from deploying further facilities in Alaska.<sup>44</sup>

The RCA supports the FCC's proposal to create an exception within the rules for competitive ETCs to continue receiving support if they can certify they meet specified criteria.<sup>45</sup> Most competitive ETCs in Alaska are not nationwide carriers and they do generally receive more than \$1 per line per month. These carriers could meet the criteria proposed in the NPRM for continued competitive ETC support. As an alternative, the FCC might consider funding a limited number of wireless and wireline carriers in any market.

**9. Sustainable voice and broadband in Alaska may require CAF support to more than one provider.**

The FCC seeks comment on the need for additional CAF support in rural, high cost areas.<sup>46</sup> As noted earlier, there is no business case in much of rural Alaska for providing reliable, affordable wireless or wireline service, absent support. Most rural communities, whether or not they have access to wireless services, are served by one incumbent wireline carrier of last resort. While we recognize and join in the FCC's desire to ensure efficient use of funds, it would appear counter to universal service goals for rural customers in high cost areas to face losing their existing wireline carrier or their existing wireless carrier, as a

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<sup>43</sup> NPRM ¶242, 32, 21

<sup>44</sup> See *Connect America Fund, National Broadband Plan, High-Cost Universal Service – Notice of Ex Parte Communications* in Dockets 10-90, 09-51, and 05-337 filed by ACS Wireless on September 17, 2010 at page 2. See also *Comments of General Communication, Inc.* filed into GN Docket No. 09-51 and WC Docket No. 05-337 on January 7, 2010 at page 7.

<sup>45</sup> NPRM ¶253-4

<sup>46</sup> NPRM ¶ 559.

result of the proposal to provide CAF support to only one provider per community.

The benefit of *both* wireless and wireline service to customers should not be underestimated. Many customers value wireless service for its mobility, an important factor in the event of an emergency and when telephone access is needed while away from home. Other customers value wireline service for its quality and potential for higher capacity data services. For example, consumers in two Alaska rural exchange areas recently requested that their incumbent carrier replace existing wireless service with wireline service.<sup>47</sup>

**10. The definition of supported voice services should not be simplified or modified.**

The services to be supported by federal universal service are defined in 47 CFR 54.101(a)(1)-(9).<sup>48</sup> Under the CAF, the FCC proposes to simplify these core functionalities into the vague term “voice telephony.”<sup>49</sup> We oppose any proposal to simplify or eliminate currently supported services that would lead to lower standards for voice service than what we have today. Simplification of supported voice services is not justified by the FCC’s goal of designing universal service support for broadband. Continued reliable voice communications services are essential to all Alaskans, particularly access to emergency services which may be more difficult to provide over broadband. Also, the “local usage”

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<sup>47</sup> RCA Docket U-08-23, concerning service in subdivisions in Klawock and South Thorne Bay, Alaska.

<sup>48</sup> 1) Voice grade access; 2) Local usage; 3) Dual-tone multi-frequency signaling; 4) Single party service; 5) Access to emergency services; 6) Access to operator services; 7) Access to interexchange service; 8) Access to directory assistance; 9) Toll limitation for low-income customers.

<sup>49</sup> NPRM ¶96.

requirement gives voice telephony meaning in regard to wireless Lifeline services. Customers should also be able to have access to interexchange carriers, if that is their desire. However, it is uncertain whether any of these existing voice service requirements would be preserved under the “voice telephony” definition.

In conclusion, CAF support recipients should be subject to baseline requirements for the provisioning of voice services consistent with the existing voice requirements applied to ETCs.<sup>50</sup> Carrier obligations to provide voice service must be clearly stated and unambiguous.

***11. Broadband recipients must provide voice of comparable quality and kind as is required by ETCs today, absent State waiver.***

Any waiver from voice baseline requirements should be controlled by the states as the entity most familiar with the unique challenges to providing service in a given area. State control of the waiver process would be consistent with state authority under federal law to designate ETCs.<sup>51</sup>

If CAF recipients are chosen based on lowest bid to provide “voice telephony” via any technology and baseline requirements are not clearly defined, hard to serve areas such as rural Alaska are likely to receive substandard service. We are also concerned that allowing “partnering” may create ambiguity when determining which entity has the primary obligation to serve. Further details are needed about how “partnering” would work before such an option should be considered.

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<sup>50</sup> NPRM ¶100.

<sup>51</sup> 47 U.S.C. 214(e)(2)

**12. The FCC's proposed two standard deviation rate benchmark has already been discounted by the Court as an unreasonable standard for evaluating rate comparability.**

The FCC proposes that recipients must offer voice and broadband (individually and together) in rural areas at rates that are affordable and reasonably comparable to rates in urban areas.<sup>52</sup> The proposal to judge urban and rural rate comparability based on whether rural rates are within two standard deviations above the average urban rate ignores important factors in delivering service to remote rural areas.<sup>53</sup> For instance, the two standard deviation benchmark does not consider the size of the calling area, the speed of broadband or the type of middle mile facilities. More importantly, the Tenth Circuit has found that use of the two standard deviation benchmark would ensure that significant variance between rural and urban rates would continue unabated.<sup>54</sup>

**13. Satellite circuits should not replace existing local exchange land lines as the funded means of providing local voice service in the highest-cost areas absent state concurrence.**

The FCC proposes to allow fund recipients to provide voice telephony and broadband using any technology including satellite.<sup>55</sup> We disagree with the FCC's assumption that satellite technology is ideally suited for providing local exchange voice to housing units that are the most expensive to reach via

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<sup>52</sup> NPRM 137

<sup>53</sup> NPRM 143-145.

<sup>54</sup> In *Qwest II*, the Tenth Circuit stated that “[b]y designating a comparability benchmark at the national urban average plus two standard deviations, the FCC has ensured that significant variance between rural and urban rates will continue unabated.” *Qwest Communications Int’l, Inc. v. FCC*, 398 F.3d 1222, 1236 (10<sup>th</sup> Cir. 2005) (*Qwest II*).

<sup>55</sup> NPRM 96, 97. (by subcontract with satellite providers)

terrestrial technologies.<sup>56</sup> With satellite “voice telephony,” a local call between neighbors could be an expensive, double hop satellite call. Even with our high dependence on satellite technology, Alaska does not employ satellite technology for local to local calls given the costs and quality of service issues.

Satellite technology is currently used in many Alaska communities to deliver interexchange voice services, basic internet services, and broadband service to anchor institutions.<sup>57</sup> Alaska providers have commented that satellite transmission has problems with latency, data transmission continuity, and disruptions from weather conditions. Comments indicate that satellite is expensive, with the cost of a satellite T1 connection roughly three times the cost of terrestrial T1 transport in the continental U.S.<sup>58</sup> Carriers conclude that the limited capacity of satellite makes it unsuitable for widespread, intensely used, mass market broadband service.<sup>59</sup> Nevertheless, for many areas of Alaska, satellite links may be the only viable option to deploy broadband, provided sufficient capacity is available.

The best technology to serve an area will vary depending on local conditions and the services to be provided. When evaluating which carrier should be awarded ETC funding, the states are in the best position to know whether the technology selected best serves consumers in any particular location.

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<sup>56</sup> NPRM 133.

<sup>57</sup>Basic Internet speeds generally run 56 kpbs upload and 256Kpbs download; anchor institutions include schools and libraries and telemedical facilities.

<sup>58</sup> Comments of Alaska Communications Systems in WT Docket No. 10-208, filed December 16, 2010.

<sup>59</sup> Comments of General Communication, Inc. filed into GN Docket No. 09-51and WC Docket No. 05-337 on January 7, 2010.

On this point, we oppose the concept that the lowest bidder for an area is the most appropriate carrier to receive funding. While economic efficiency is important, quality and ubiquity of service remain critical factors when selecting a supported carrier, especially as that carrier may be the only service provider for an area.

**14. Broadband deployment in Alaska likely requires support for middle mile facilities.**

As noted earlier, broadband deployment in Alaska is hindered by the absence of adequate, affordable, middle mile facilities. So far, the lack of unsubsidized broadband to most areas of rural Alaska demonstrates that there is no business case for this service. With grant and loan funding, some providers have deployed broadband with download speeds ranging from 56 Kbps to 2 Mbps to rural locations in the state.<sup>60</sup> The Connect Alaska broadband maps indicate that broadband services with speeds of at least 768 Kbps downstream and at least 200 Kbps upstream are available in Southeast, Southcentral, and Central Alaska, generally along Alaska's limited road systems.<sup>61</sup> These services are provided primarily by cable modem and DSL technologies in areas where terrestrial or undersea middle mile facilities exist.<sup>62</sup> However, these areas with coverage comprise roughly one quarter of the land area of the state, meaning

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<sup>60</sup> See Rural Alaska Broadband Internet Access Grant Program <http://rca.alaska.gov/RCAWeb/Programs/> .

<sup>61</sup> Numbers are overestimated due to the mapping procedure- if a location within a census block has service, the entire census block is considered served.

<sup>62</sup> [http://www.connectak.org/mapping/statewide\\_broadband\\_inventory\\_maps.php](http://www.connectak.org/mapping/statewide_broadband_inventory_maps.php) ; [ftp://ftp.connectak.org/CAKPublic/Connect\\_Alaska\\_Mapping/ProviderSpeed\\_Maps/AK\\_Statewide\\_MaxDownloadSpeed.pdf](ftp://ftp.connectak.org/CAKPublic/Connect_Alaska_Mapping/ProviderSpeed_Maps/AK_Statewide_MaxDownloadSpeed.pdf) . There are discrepancies between the maps however as the speed map shows the Denali Borough with speeds of 10Mbps to 25 Mbps yet the inventory map shows no broadband availability.

that most of Alaska lacks broadband services at the 3 or 4 Mbps download and 1 Mbps or 768 Kbps upload standards considered in the NPRM.<sup>63</sup> We believe the lack of affordable middle mile facilities is a key reason broadband deployment is not generally available in the remaining three quarters of the state. We urge the FCC to include middle mile funding in the CAF program.<sup>64</sup>

**15. States should designate ETCs eligible for broadband and voice services, with existing ETC Obligations retained under the CAF**

The FCC seeks comment on a number of issues regarding ETC requirements and obligations.<sup>65</sup> We oppose any proposal that would prevent our continued oversight of ETC designations as a result of FCC forbearance. Forbearance cannot occur absent clear demonstration that the conditions of 47 U.S.C. 160(a)(1-3) have been met. Such a demonstration has not been made.

**16. States should retain authority to designate carriers of last resort and identify their responsibilities under state law.**

States are in best position to assess the need for and services to be provided by COLR carriers. Alaska has recently adopted regulations to select the COLR in a competitively neutral manner and in many cases, provide state USF funding to the COLR. Our actions demonstrate our belief that preservation of a COLR in rural Alaska is critical to the public interest. We oppose proposals that attempt to eliminate COLR responsibilities or interfere with our ability to

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<sup>63</sup> NPRM 109, 110.

<sup>64</sup> NPRM ¶395, the FCC seeks comment on this issue.

<sup>65</sup> NPRM ¶89



select the most reasonable COLR to serve an area.<sup>66</sup> In any case, the FCC has not demonstrated that it holds authority to preempt states in the designation of an intrastate carrier of last resort, or in setting COLR performance levels.

We recognize that some coordination may be needed between state determination of COLRs and ETCs and the means the FCC adopts to determine award of federal funding. Absent such coordination, a carrier of last resort's relinquishment of ETC status would lead to degradation of services in rural Alaska communities where costs are high, there is no business case for deploying services, and consumers have little or no choice among alternative services.<sup>67</sup> The best solution may be to allow states the opportunity to select the carrier that may be the only receiver of federal CAF support in an area, subject to federal guidelines for fund award.

### **InterCarrier Compensation Reform**

#### ***17. Eliminating per minute access charges, in conjunction with USF reforms, will place at risk the financial health of Alaska Carriers of Last Resort.***

The FCC's proposal to reform ICC by moving providers away from per minute charges toward a bill and keep compensation scheme would have serious repercussions for Alaska providers and consumers.<sup>68</sup> As shown in Exhibit 4, switched access contributes roughly 34 percent of the revenues for rural incumbent carriers in Alaska. Eliminating 34 percent of any carrier's revenue would likely jeopardize the carriers' ability to cover its debt and could lead to

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<sup>66</sup> NPRM at 101.

<sup>67</sup> NPRM at 101.

<sup>68</sup> NPRM ¶ 34, 40, 505

increased local rates beyond those discussed above (Exhibit 2) in relation to proposed high cost USF reform.

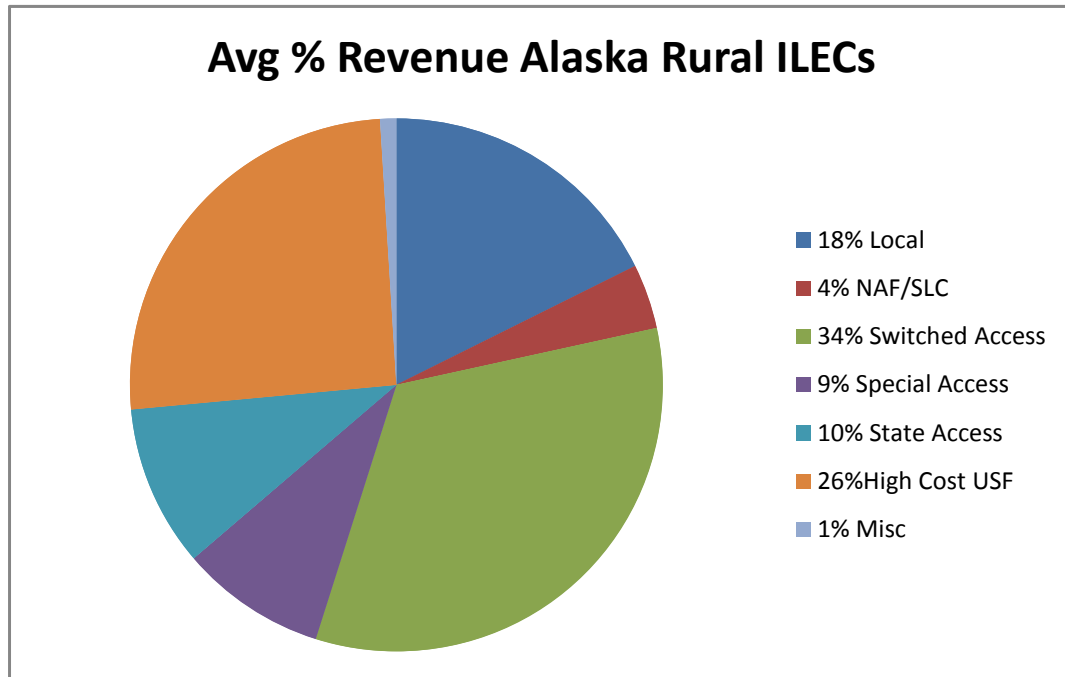


Exhibit 4<sup>69</sup>

**18. Further recovery of lost access revenues from end users is not reasonable in Alaska.**

The FCC's proposal for carriers first to seek recovery of post reform lost access revenues through end user charges is not a reasonable solution for Alaska given recently completed reforms to the intrastate access charge system.<sup>70</sup> When implemented, Alaska's intrastate access reform will reduce intrastate common line access rates to zero; will raise the state Network Access

<sup>69</sup> The data for the chart consists of averaged 2009 USF monitoring report information and revenue information from 2009 annual reports for 5 rural Alaska incumbent LECs: Summit Telephone and Telegraph, Alaska Telephone Company, Inc., OTZ Telephone Cooperative, Inc., Interior Telephone Company, Inc. and Yukon Telephone Company, Inc.

<sup>70</sup> NPRM 588.

Fee to \$5.75 per line per month for most companies; and will increase the role of the Alaska USF in subsidizing carrier's intrastate revenues.<sup>71</sup> The reforms will increase the level of Alaska consumers' contributions to the state USF by 6.8 percent. At that time Alaska will have the Nation's highest state USF surcharge percentage at 9.4 percent.<sup>72</sup> Further, once our access charge reforms are fully phased in, consumers in Alaska will pay above average or comparable local rates for access to limited local calling areas as explained earlier in this document (See Exhibit 3).

Given the above, we believe it is unreasonable to expect Alaska consumers to absorb further increases to rates or USF contribution factors that will assuredly result from the FCC's proposed USF and ICC reforms. If the FCC seeks to bring Alaska intrastate and interstate access per minute rates to zero, it should do so through additional federal universal service support.

We also question whether it is economically reasonable to eliminate all per minute rate access fees. We recognize the FCC's goal is to move to a full IP based network; however, that may take years to achieve. In the interim, there remains a need to appropriately pay for the use of circuit based switching equipment. On this point the concept of cost-causer, cost-payer remains valid. The choice and cost of circuit equipment is influenced by features needed solely for interexchange service as well as the expected peak traffic volume (including

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<sup>71</sup> R-08-003, Order No. 8.

<sup>72</sup> RCA Docket R-08-03, *Rural Coalition's Comments in Response to Commission's Second Supplemental Notice*, filed July 26, 2010, at 9. It should be noted that the Rural Coalition's estimate was generally unopposed.

toll calling). This raises the question of whether long distance and similar users (cost causers) of the local switch should pay no costs to access the local switch.

**19. *The proposed ICC compensation replacement calculation penalizes states that have reformed their intrastate access charge regime.***

As the FCC's intercarrier compensation reform plan is a national goal, no one state should be unduly burdened in contributing toward that goal. In designing an intercarrier compensation recovery mechanism, the FCC should therefore identify a limit on the level of ICC burden a state should be expected to bear before receiving CAF support. Similarly, CAF support should be available to assist early adopter states with a high cost burden as a result of access charge reform. On this point, it would be unfair for the FCC to provide funding for some states to lower future burdens in achieving ICC reform, while ignoring continuing burdens born by those states that have already implemented ICC reform.

We question the intrastate component of the proposed calculation in Appendix D of the NPRM for purposes of determining ICC related CAF support. Contrary to what may have been intended, this calculation denies support to states that have already reformed intrastate access charges and rewards the states that have not done so. For example, the proposed calculation appears to ignore the impact of intrastate access revenue losses that exceed the benchmark rate.<sup>73</sup> As another example, the calculation appears to consider only prospective

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<sup>73</sup> The portion of the Appendix D formula related to local rate increases is "maximum {0, [r<sup>β</sup> - r<sub>1</sub>]L<sub>a</sub>". The rate effect is zero if local rates are higher than the benchmark.

state access revenue losses.<sup>74</sup> States with lower access rates at the start of FCC reform will show lower revenue declines than states that have kept their intrastate access rates high. This formula therefore provides incentive for states to delay intrastate access reform in conflict with the FCC's stated goal. We ask the FCC to take into consideration burdens placed on early adopters of access charge reform as it considers prospective federal universal service fund levels for ICC reform.

We also question why the FCC's Appendix D proposal considers federal ICC support for intrastate access charge reform, but only if the intrastate access rates are per-minute based. In Alaska,<sup>75</sup> intrastate common line access rates would not be eligible for CAF access replacement support as the CCL rates are not per minute based; however, a state with lower state common line cost might be eligible simply due to its rate structure. Given Alaska's USF will ultimately support roughly \$30M to achieve intrastate common line access charge reform, we are concerned but remain hopeful that the FCC proposal ultimately implemented will be equitable.

***20. States should maintain jurisdiction over intrastate access charge policies and rates.***

We oppose proposals advanced in the NPRM that would preempt state authority or otherwise attempt to assert federal control over intrastate access

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<sup>74</sup> The portion of the Appendix D formula related to state access revenue losses is "[ $a_0 A_0 - a_1 A_1$ ]".

<sup>75</sup> In Alaska, intrastate common line costs are rated under a Carrier Area Specific Bulk Bill (CASBB) system where common line costs are paid (currently) by interexchange carriers based on relative market share. Once reforms are implemented later this year, the Alaska Universal Service Fund will pay for the CASBB fees in place of interexchange carriers.

charge policies. Federal authority over intrastate access charges would appear precluded by Section 251(d)(3) of the Act<sup>76</sup>, which conditionally states that in “prescribing and enforcing regulations” to implement the interconnection requirements of Section 251, the FCC “shall not preclude the enforcement of any regulation, order, or policy of a State commission that --- (A) establishes access and interconnection obligations of local exchange carriers.”

**Concluding remarks**

We have attempted in our comments to paint a realistic picture that describes the level of voice and broadband services in Alaska and the challenges that exist to deployment of broadband in accordance with FCC goals. We urge the FCC to include Alaska in the special consideration that may be given to Tribal Lands and remote and insular areas. Doing so will better and more equitably ensure that consumers in Alaska will benefit from broadband and voice services at affordable rates. Without special consideration, we fear that Alaska will be deemed too expensive to serve and will be left behind as the nation moves toward a broadband future.

RESPECTFULLY SUBMITTED this 18<sup>th</sup> day of April, 2011

*for*   
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Regulatory Commission of Alaska  
Robert M. Pickett, Chairman

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<sup>76</sup> 47 U.S.C. 251(d)(3).