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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

RE: CC Docket No. 96-262, Access Charge Reform

Dear Mr. Caton:

The Alaska Telephone Association hopes that these comments will help the Commission comprehend the complexity of providing telecommunications in Alaska. The expanse of this state is huge, the topography extreme, the climate harsh, and the telecommunications system economically fragile. As in the rest of the nation, we seek advanced technology and services for all of our customers. We hope that access charge reform will not frustrate those goals.

Thank you for your attention.

Very truly yours,



Scott Smith
Vice President

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

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JAN 28 1997

In the Matter of)	
)	
Access Charge Reform)	CC Docket No. 96-262
)	
Price Cap Performance Review for Local Exchange Carriers)	CC Docket No. 94-1
)	
Transport Rate Structure and Pricing)	CC Docket No. 91-213
)	
Usage of the Public Switched Network by Information Service and Internet Access Providers)	CC Docket No. 96-263

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Comments of the Alaska Telephone Association

The Alaska Telephone Association (ATA) offers the following comments in response to the Federal Communications Commission (FCC) Access Reform NPRM, CC Docket 96-262. Access reform will be pivotal to the ultimate achievement of the competition and deregulation objectives embodied in the Telecommunications Act of 1996. ATA views access charges as an important revenue source for its member LECs. Many of Alaska's bush subscribers possess a telephone primarily for toll usage, rather than local use. Many outlying exchanges have a significantly greater number of switched minutes of toll calling than they do of local calling. For many rural Alaskan LECs the predominant use of their facilities is toll service, and rural LECs need access revenues to maintain service.

Our advocacy in this proceeding emphasizes the fact that markets will evolve in different ways and at different speeds all over the country. The FCC's own NPRM acknowledges this as it distinguishes between "price cap" incumbent local exchange companies and the "rate of return" companies. Indeed, there will be countless variations on this theme as competitive forces are released and paths of least resistance are identified.

Market Based Approach vs. Prescriptive Approach to Access Reform

Once the reality of competitive evolution is acknowledged, it becomes easier to recognize that prescriptive, one-size-fits-all access reform will not provide the incentives needed to guide the industry in the policy direction Congress has chosen.

To begin with, local exchange competition will be deployed in phases, not in one magnificent flash-cut, following the completion of the various regulatory proceedings now underway. A "packaged" access pricing plan that works well for metropolitan, high density markets like New York City or San Francisco, California will have little relevance to the development of local exchange competition in Pocatello, Idaho, and even less application in Tuntutuliak, Alaska. The economic incentives that will bring the benefits of competition to vast reaches of this country will be regional and local in nature and, therefore, must be driven by market signals that are allowed to emerge from the natural forces of local and regional economies.

There are numerous arguments that might be offered in opposition to the continuation of governmentally mandated access pricing. For example, the debate over meaningful cost proxies rages on with no clear resolution in sight. The inability to reconcile urban and rural cost profiles is a significant dimension of the proxy issue. Forward looking (TELRIC/TSLRIC) pricing continues to disregard the inequities of stranded investment, prudently incurred under the "regulatory contract" entered into between regulated service providers and the governments which regulate them. But, in the final analysis, individual markets will answer the what, when, where, and how questions of competitive entry, if we let them.

The ATA believes that the FCC took the correct first step in bifurcating its consideration of a new access charge paradigm between price cap companies and rate of return companies. With a few exceptions, which we comment upon herein, the FCC properly recognizes that access charge reform should not be universally applied but directed first to those situations requiring more immediate remedy. The ATA cautions, however, that the experiences gained in applying new access rules to price cap companies are not arbitrarily extended to small and rural markets without an extensive investigation under a separate proceeding.

However, in any proceeding on access, ATA encourages the Commission to fashion an access pricing plan which balances the legitimate cost recovery needs with the goal of expanded competitive entry. Companies should be free

to respond to market signals in setting access rates. If the rates are too high, access competitors will be attracted to the margin opportunity that is perceived. The result will be either that the incumbent's access prices are driven down or the competitor steps in and wins market share using lower prices to attract customers.

The ATA opposes the FCC's suggestion of an alternative, prescriptive approach to access charge reform. Using prescribed, regulated pricing as a surrogate for market forces almost guarantees that the real benefits of competition will be delayed or denied. Regulated pricing tends to set the price that an incumbent carrier will charge. To the extent that margins remain, competitors will come into the market and price just below the incumbent. There is no incentive for the competitor to set prices at or near cost because this is not necessary to capture market share and it is counterintuitive when maximizing margins.

This becomes particularly problematic in small markets where multiple competitors are unlikely. Once again, pricing models based upon high density assumptions do not fit well in intermediate and small markets where oligopolies are more likely to dominate.

Perhaps the best example of the phenomenon noted above is Alaska's own experience with intrastate interexchange competition. 1+ presubscription has been provided by two carriers in Alaska for interstate calling since the mid-1980's. Intrastate competition, however, has only been in existence since 1991. It has been interesting to watch the "price leadership" model that has evolved.

The dominant carrier, AT&T Alascom, continues to be subject to state regulatory oversight, but has not overhauled its rate of return based rates since 1983. The only other facilities based competitor, GCI, has, for the most part, opted to price just below Alascom. However, GCI has taken a significant portion of the market from Alascom while only having to price at a level just slightly below that of the regulated monopoly.

To be sure, price competition has been fierce for the limited number of high volume customers found in Alaska. But so far, the use of prescribed incumbent carrier rates, mandated by government regulation, has not produced a stampede of prices moving towards cost.

The goals of competition and the Telecom Act are best served by a strategy which allows individual markets to directly signal the companies that serve them. The competitive response will be more timely, more effective, and better tailored to the specific needs of the location being served while still meeting the expectations of a free and dynamic industry. The ATA encourages the FCC to adopt a market based approach that incorporates these attributes.

Proposed Access Reform Applicable to Rate of Return Companies

The NPRM identifies three areas in which access reform may be applied to rate of return companies simultaneously with price cap LECs. The Commission proposes that 1) access charges be reduced to reflect the embedded universal service support now made explicit in the Joint Board's universal service

recommendation and 2) reforms to the transport rate structure, including the TIC, be extended to all companies at the same time. The NPRM also requests comments on 3) the application of proposed changes to the common line rate structure to rate of return LECs.

Universal Service

The Telecommunications Act was "designed to accelerate private sector deployment of advanced telecommunications and information technologies and services to all Americans." (Conference Report). Section 254(b)(3) of that Act states that consumers in all regions of the nation "should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are *available at rates that are reasonably comparable to rates charged for similar services in urban areas.*"

The ATA believes that to achieve this intent of Congress that changes in universal service funding and changes in access charge regulations must be carefully synchronized. Many of ATA's member LECs will be denied sufficient revenue to maintain service and meet obligations if certain access and USF changes are not synchronized.

It must also be understood that the universal service support cannot be frozen at levels which were determined on current separations and access charge rules if these rules are subsequently altered so as to reduce access revenue. Reducing access charge revenue for rural LECs, without a concurrent increase in universal

service funding forces them to raise rates when many rural Alaskans are now paying rates higher than those who live in urban areas. A careful coordination of changes in both access charge reform and universal service support will be required to mitigate this inequity.

By its nature, the costs are high to provide telephone service in rural Alaska. The State's service areas include the most rugged and remote parts of the United States. Only four (4) of two hundred forty-one (241) communities served by Alaska's telephone companies have more than ten thousand (10,000) lines. Seventy-five percent (75%) of LEC switches in the state serve fewer than two hundred (200) lines. Most of Alaska's communities are not connected by road to the state's commercial centers. Some villages can be reached only by helicopter, not even an airplane, during certain months of the year. Revenue streams that cover the costs to provision telephone service in these areas cannot be significantly reduced without severely impacting service.

The Commission expressed concern that if implicit support mechanisms, now embedded in access charge rates, are moved to explicit universal service support there will be a double recovery enjoyed by LECs (p 244). Unless the universal service fund recommendation is substantially modified, it is far more likely that revenues will be insufficient to maintain service in high-cost areas, even if access charges remain unchanged. There are three major deficiencies in the current USF proposal that will ensure that revenues are not sufficient even if separations and

access rules are not modified. These deficiencies must be remedied through a coordinated modification of both the USF regulations and access reform.

First, the Joint Board's recommendation introduces a two-year lag on recovery of Dial Equipment Minute (DEM) weighting and Long Term Support. Unless this delay in recovery is addressed, the resulting revenue shortfall will likely cause irreparable damage to many Alaskan LECs.

Second, the Joint Board's proposal to discontinue support for multi-line businesses and second residential lines is extremely detrimental to Alaskan LECs. The Commission's suggestion that the cap on the Subscriber Line Charge (SLC) applicable to these additional lines be increased or even lifted (p 65) does not adequately address the recovery of the shortfall that Alaskan LECs will experience. In many of Alaska's remote serving areas the SLC on additional lines would have to increase to over \$80 per line, per month! This transfer of costs to the end user will hardly be comparable to that paid by urban customers, let alone affordable. ATA strongly urges the Commission to remedy this problem by continuing universal service support for multiple lines in its forthcoming order on universal service.

Third, proposed universal service reform that freezes support on a per-line basis ignores both demographic and economic reality for Alaska's rural telephone companies. Populations often decline in rural areas, and when they do, the cost per line for telephone service increases at the same time revenue is decreasing. To

implement a per-line freeze creates disincentives for investment that are clearly contrary to the intent of the Act.

The Commission should coordinate its efforts to reform universal service funding mechanisms with its efforts to reform access charges. Unless revenues from these sources are addressed in total, rural subscribers in Alaska, and probably elsewhere, will face unwarranted increases in their service rates as their providers attempt to recover the unavoidable high costs required to serve rural and remote areas.

Transport Rate Structure

The Commission invites comments on reducing the "residual" transport rate element—the TIC (Section E). ATA believes that all of the costs currently recovered through the Transport Interconnection Charge (TIC) must continue to be recovered from interexchange carriers (IXC). A portion of the TIC can be directly identified as interconnection and tandem switching costs. This portion should be reallocated to other access rate elements that are currently under priced as a result of the pricing methodology mandated in the Transport Restructure proceeding. The balance of the TIC are prudent costs incurred by Rate of Return LECs that have properly assigned them to the transport category in the interstate jurisdiction through the correct application of the Commission's separation rules and regulations. These costs are real and they are prudent. These real costs must be allowed recovery through a competitively neutral recovery mechanism, perhaps through a "bulk bill"

charge to all IXC's. Eliminating the TIC, or any portion of it will ensure that rate-of-return LECs are forced to provide service without adequate compensation.

Common Line Recovery

ATA endorses the Joint Board's recommendation that Carrier Common Line costs be "bulk-billed" to the IXC. ATA has suggested that the pre-subscribed lines of the IXC's may form a more easily administered basis for the bulk bill as opposed to minutes. Many Alaskan's subscribe to telephone service primarily to maintain contact with the world beyond their community. Bulk billing the CCL access costs will properly recover them from the toll carrier.

Recommendation Regarding Synchronization of Access and

Universal Service Reform

ATA has watched the Commission and its Joint Board wrestle with fulfilling the reform mandates of the 1996 Telecommunications Act. Our organization truly empathizes with the tremendous strain on resources this undertaking has engendered. We note that, as the last two legs of the competitive triad have been crafted, there has come the realization that time is too short and the issues too complex and varied to address all players and regions of this country at one time—with one solution. The Joint Board was the first to recognize that there were significant differences in characteristics between urban areas, rural areas, and Alaska and insular areas. Their universal service reform recommendations are customized to reflect these differences. Now comes the Commission, noting a

distinction between large, Tier 1, price cap LECs and smaller Rate of Return LECs as to the application of access charge reform.

Alaska has always been unique when compared to most of the other States.

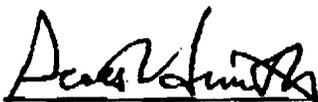
Perhaps due to that uniqueness we are exceptionally concerned that the Commission address the interrelationship of universal service and access reform within a common distinction. As we commented in our reply in the universal service proceeding (cc 96-45), ATA recommends that the FCC limit the scope of the universal service support proceeding, as it applies to incumbent LECs, to those incumbent LECs subject to price cap regulation. The rationale that justifies a policy of bifurcation for the reform of access charges must also justify a similar bifurcation for the reform of universal service support. Full synchronization between these interrelated issues will thus be ensured.

Conclusion

The Alaska Telephone Association heartily recommends that :

1. Access charge reform be guided by the principle of free market based adjustments and not by regulatory prescribed changes.
2. Reduction of access charges related to the removal of embedded universal service subsidies be carefully synchronized with the development of explicit universal service support rules.
3. LECs must be allowed to recover the full, legally, and prudently incurred costs reflected in the Transport Interconnection Charge (TIC) from IXCs.
4. The full Carrier Common Line revenue requirement must be allowed to be recovered from IXCs on a bulk bill basis.
5. The interrelated issues of access charge reform and universal service reform should be similarly bifurcated, with the scope of each proceeding limited to price cap LECs at this time.

Respectfully submitted this 28th day of January, 1997.



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