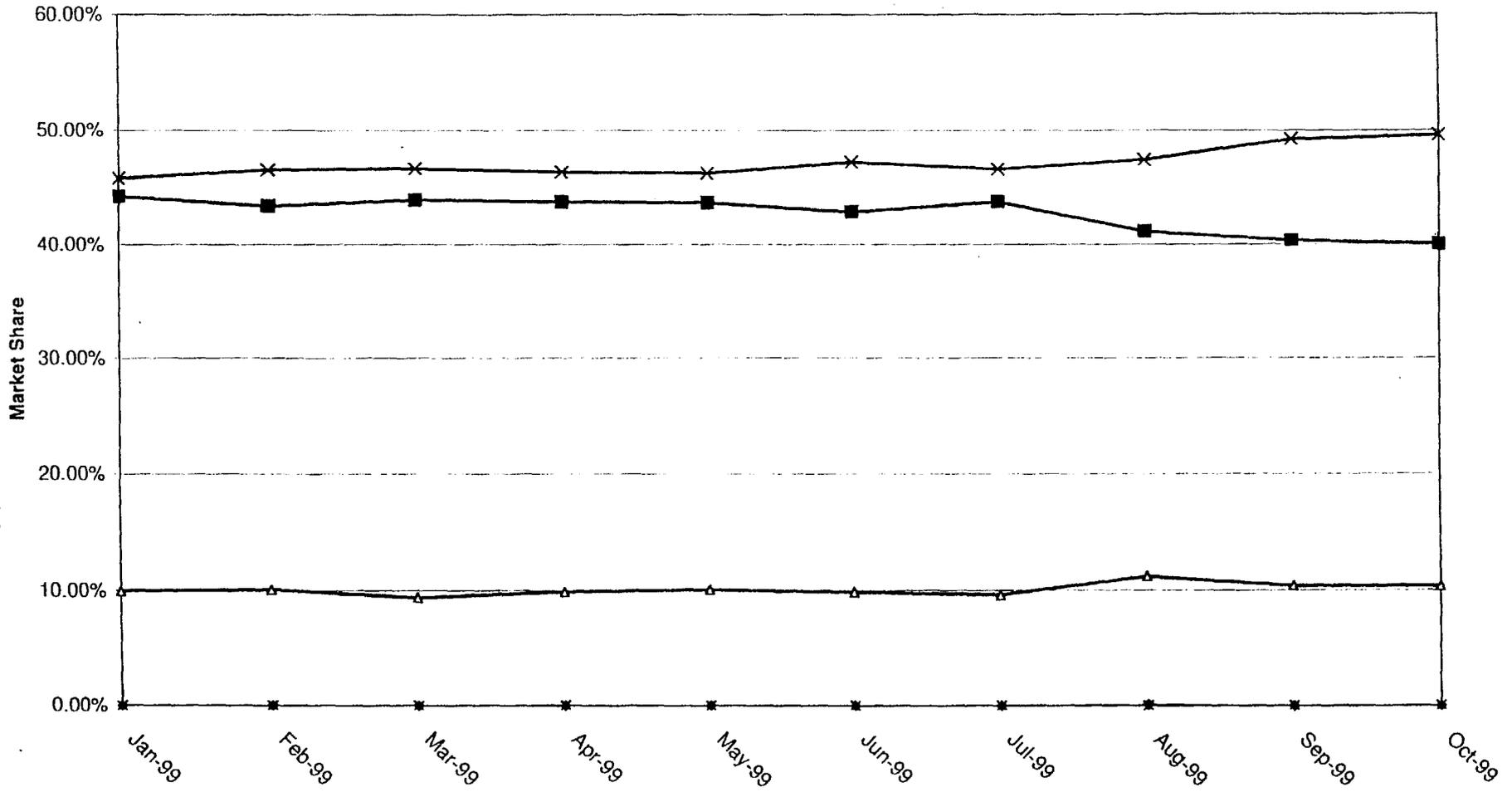
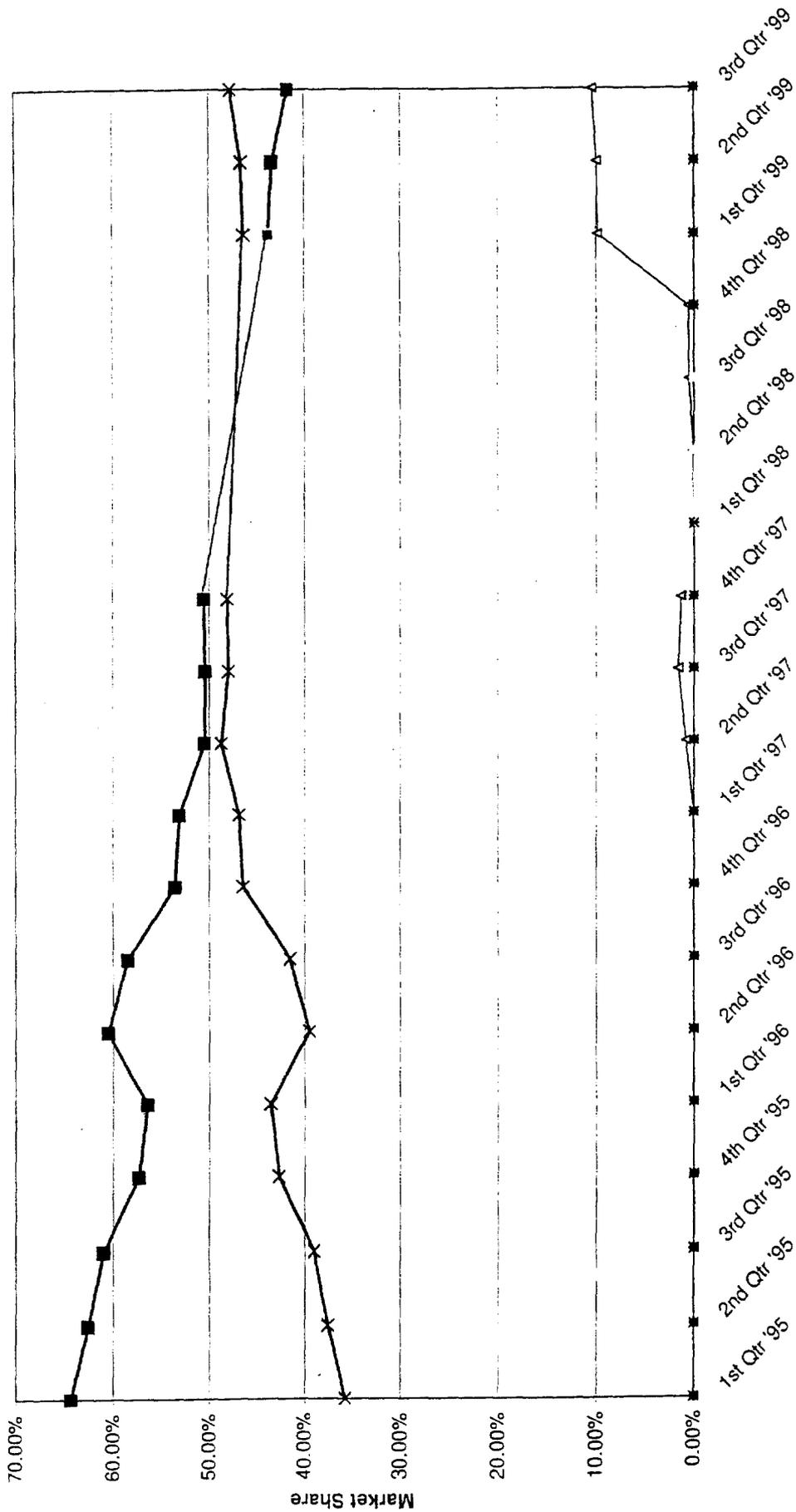
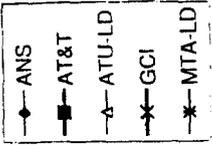
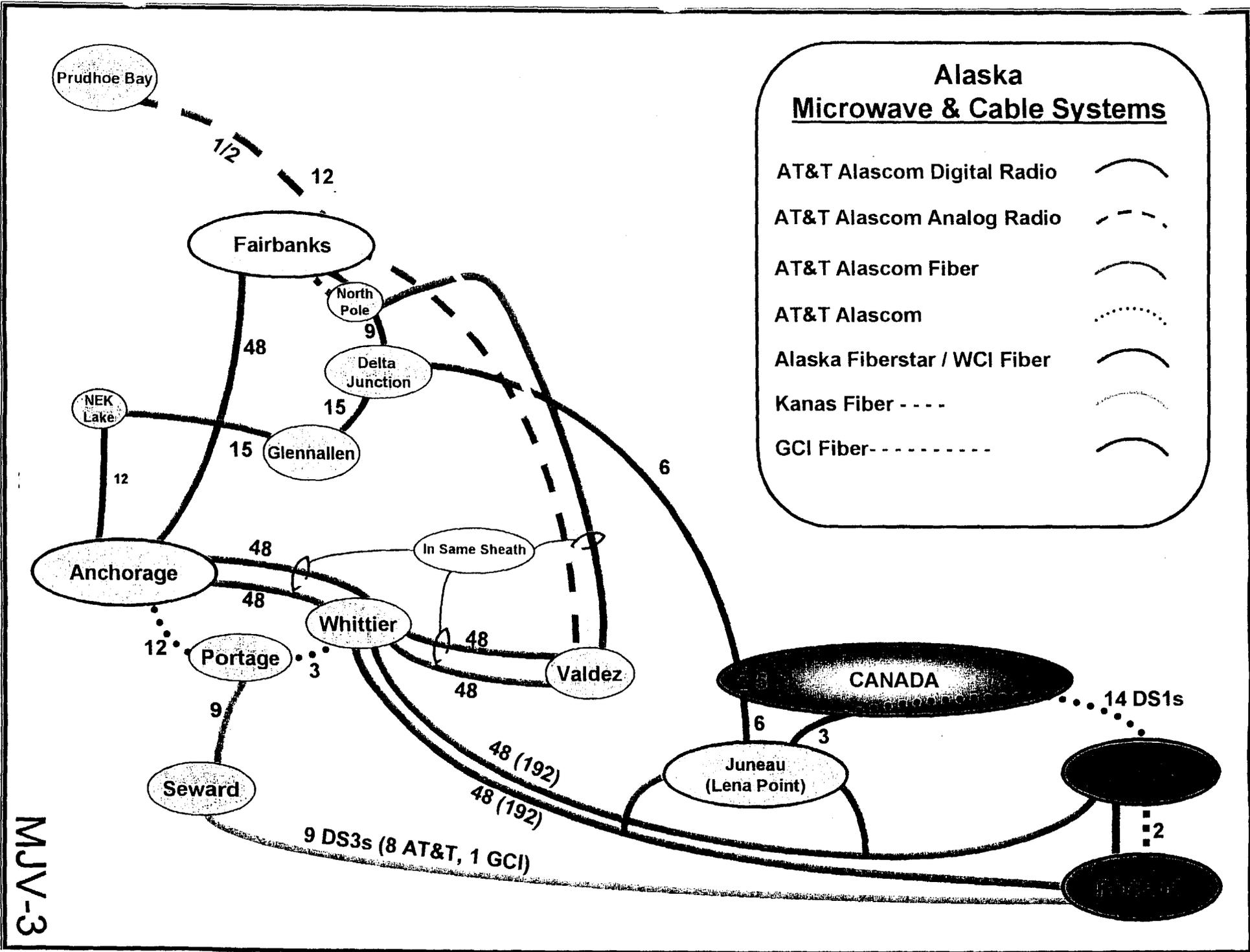


1999 Market Share  
Originating Access Minutes  
Anchorage, Fairbanks & Juneau



1995 - 1999 Market Share  
 Originating Access Minutes  
 Anchorage, Fairbanks & Juneau





### Alaska Microwave & Cable Systems

AT&T Alascom Digital Radio	
AT&T Alascom Analog Radio	
AT&T Alascom Fiber	
AT&T Alascom	
Alaska Fiberstar / WCI Fiber	
Kanas Fiber - - - -	
GCI Fiber - - - - -	

MJV-3

Prudhoe Bay

1/2

12

Fairbanks

North Pole

9

Delta Junction

15

Glennallen

15

NEK Lake

12

Anchorage

48

In Same Sheath

48

Whittier

48

12

Portage

3

48

48

48

48 (192)

48 (192)

Seward

9

9 DS3s (8 AT&T, 1 GCI)

6

CANADA

6

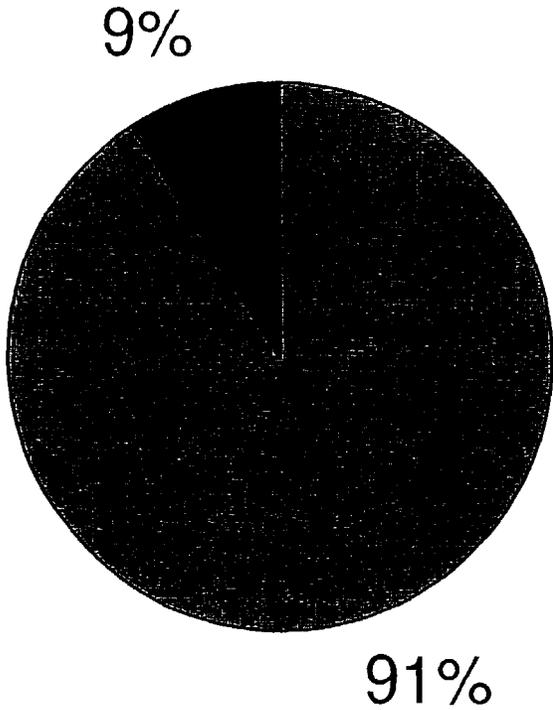
3

Juneau (Lena Point)

14 DS1s

2

# Distribution of Lines in Locations w/ Competitive Facilities



- Lines in Locations w/ Comp. Fac.
- Lines in Locations w/out Comp. Fac.

**Category 3 Net Margin Analysis**

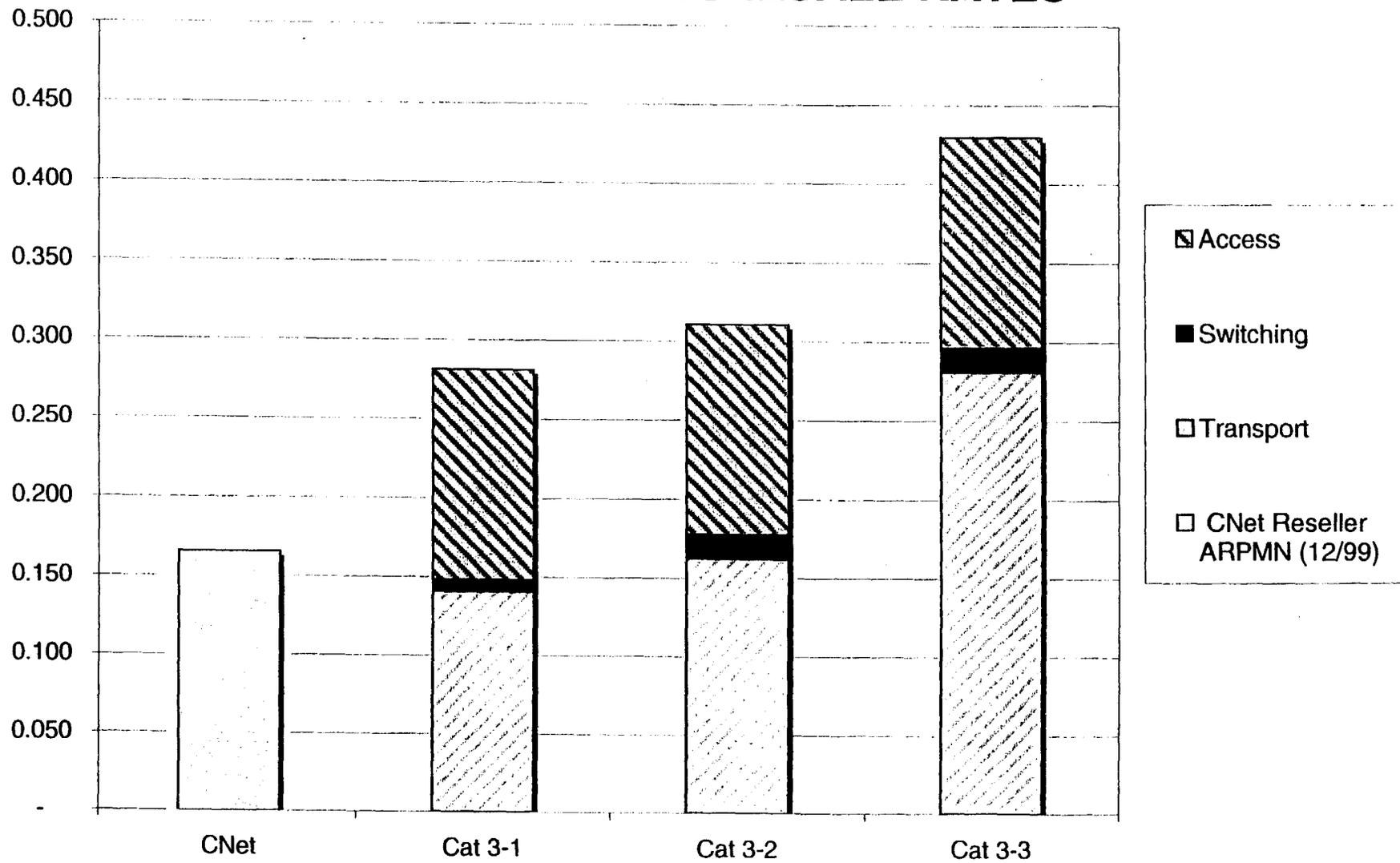
Ln.1	Category 3 Network Cost	\$	0.2517	GCI - U-98-26/27
Ln. 2	Statewide Switched Access Cost	\$	0.1332	Derived from Access Bills
Ln. 3	Average Marketing Cost	\$	0.0290	GCI - U-98-26/27
Ln. 4	Total Average Cost per MOU	\$	0.4139	Sum(Ln.1 : Ln. 3)
Ln. 5	Statewide Average Rev. per MOU	\$	0.2256	EOY 1998
Ln. 6	Net Margin per MOU	\$	(0.1883)	Ln. 5 - Ln. 4
Ln. 7	Sept. 1999 Cat. 3 Billed MOUs		3,213,017	AT&T Records
Ln. 8	Sept. Net Margin	\$	(605,011.10)	Ln. 6 * Ln. 7
Ln. 9	Yearly Net Margin	\$	(7,260,133.21)	Ln. 8 * 12

Location	Access Lines	Potential ISP Customers	LEC Bus. Lines	Cost per Bus. Line	Line Cost / Mnth.	56 Kbps Circuits	Cost per 56 Kbps	Anch. Costs / Mnth.	Total Recurring Costs	Non-Recurring Router Cost	Amortized Cost per Mnth. (Router)	Total Monthly Cost	Monthly Cost per Customer	Benchmark ISP Rate (Anchorage)	Monthly Subsidy per Customer	Yearly Subsidy per Village
Akhiok	47	12	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 116.15	\$ 20.00	\$ 96.15	\$ 13,844.93
Aklachak	123	31	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 46.89	\$ 20.00	\$ 26.89	\$ 10,004.93
Akiak	89	23	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 61.90	\$ 20.00	\$ 41.90	\$ 11,564.93
Alutan	115	29	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 50.13	\$ 20.00	\$ 30.13	\$ 10,484.93
Alakanuk	162	41	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 36.92	\$ 20.00	\$ 16.92	\$ 8,324.93
Allakaket	91	23	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 61.90	\$ 20.00	\$ 41.90	\$ 11,564.93
Ambler	115	29	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 50.13	\$ 20.00	\$ 30.13	\$ 10,484.93
Anaktuvuk Pass	158	40	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 37.09	\$ 20.00	\$ 17.09	\$ 8,204.93
Aniak	342	86	11	\$ 30.00	\$ 330.00	1	\$ 1,043.69	\$ 100.00	\$ 1,473.69	\$ 4,500.00	\$190.05	\$1,663.74	\$ 19.35	\$ 20.00	\$ (0.65)	\$ (675.07)
Anvik	54	14	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 99.55	\$ 20.00	\$ 79.55	\$ 13,364.93
Arctic Village	41	11	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 126.70	\$ 20.00	\$ 106.70	\$ 14,084.93
Atka	79	20	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 71.19	\$ 20.00	\$ 51.19	\$ 12,284.93
Atmautluak	77	20	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 71.19	\$ 20.00	\$ 51.19	\$ 12,284.93
Atkasuk	142	36	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 41.22	\$ 20.00	\$ 21.22	\$ 9,164.93
Beaver	36	9	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 154.86	\$ 20.00	\$ 134.86	\$ 14,564.93
Birch Creek	13	4	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 340.94	\$ 20.00	\$ 320.94	\$ 15,404.93
Border City	41	11	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 126.70	\$ 20.00	\$ 106.70	\$ 14,084.93
Buckland	115	29	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 50.13	\$ 20.00	\$ 30.13	\$ 10,484.93
Central	107	27	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 53.84	\$ 20.00	\$ 33.84	\$ 10,964.93
Chalkyitsik	43	11	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 126.70	\$ 20.00	\$ 106.70	\$ 14,084.93
Chefnak	90	23	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 61.90	\$ 20.00	\$ 41.90	\$ 11,564.93
Chena Hot Springs	22	6	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 227.29	\$ 20.00	\$ 207.29	\$ 14,924.93
Chenega Bay	44	11	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 126.70	\$ 20.00	\$ 106.70	\$ 14,084.93
Chevak	207	52	7	\$ 30.00	\$ 210.00	1	\$ 1,043.69	\$ 100.00	\$ 1,353.69	\$ 4,500.00	\$190.05	\$1,543.74	\$ 29.69	\$ 20.00	\$ 9.69	\$ 6,044.93
Chignik	147	37	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 40.10	\$ 20.00	\$ 20.10	\$ 8,924.93
Chignik Lagoon	97	25	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 58.15	\$ 20.00	\$ 38.15	\$ 11,444.93
Chignik Lake	88	22	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 64.72	\$ 20.00	\$ 44.72	\$ 11,804.93
Chisana	16	4	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 340.94	\$ 20.00	\$ 320.94	\$ 15,404.93
Chitina	51	13	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 107.21	\$ 20.00	\$ 87.21	\$ 13,604.93
Chuathbukuk	41	11	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 126.70	\$ 20.00	\$ 106.70	\$ 14,084.93
Circle	34	9	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 154.86	\$ 20.00	\$ 134.86	\$ 14,564.93
Cold Bay	173	44	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 34.40	\$ 20.00	\$ 14.40	\$ 7,604.93
Council	4	1	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 1,363.74	\$ 20.00	\$ 1,343.74	\$ 16,124.93
Crooked Creek	40	10	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 139.37	\$ 20.00	\$ 119.37	\$ 14,324.93
Deering	71	18	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 79.10	\$ 20.00	\$ 59.10	\$ 12,764.93
Dry Creek	34	9	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 154.86	\$ 20.00	\$ 134.86	\$ 14,564.93
Eagle / Eagle Village	186	47	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 32.21	\$ 20.00	\$ 12.21	\$ 6,884.93
Eek	104	26	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 55.91	\$ 20.00	\$ 35.91	\$ 11,204.93
Egegik	128	32	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 45.43	\$ 20.00	\$ 25.43	\$ 9,764.93
Eku / Clarks Point	80	20	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 71.19	\$ 20.00	\$ 51.19	\$ 12,284.93
Ekwok	50	13	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 107.21	\$ 20.00	\$ 87.21	\$ 13,604.93
Elim	110	28	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 51.92	\$ 20.00	\$ 31.92	\$ 10,724.93
Emmonak	264	66	9	\$ 30.00	\$ 270.00	1	\$ 1,043.69	\$ 100.00	\$ 1,413.69	\$ 4,500.00	\$190.05	\$1,603.74	\$ 24.30	\$ 20.00	\$ 4.30	\$ 3,404.93
English Bay	85	22	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 64.72	\$ 20.00	\$ 44.72	\$ 11,804.93
False Pass	68	17	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 83.75	\$ 20.00	\$ 63.75	\$ 13,004.93
FL Yukon	325	82	11	\$ 30.00	\$ 330.00	1	\$ 1,043.69	\$ 100.00	\$ 1,473.69	\$ 4,500.00	\$190.05	\$1,663.74	\$ 20.29	\$ 20.00	\$ 0.29	\$ 284.93
Galena	421	106	14	\$ 30.00	\$ 420.00	1	\$ 1,043.69	\$ 100.00	\$ 1,563.69	\$ 4,500.00	\$190.05	\$1,753.74	\$ 16.54	\$ 20.00	\$ (3.46)	\$ (4,395.07)
Gambell	189	48	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 31.54	\$ 20.00	\$ 11.54	\$ 6,644.93
Golovin	75	19	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 74.93	\$ 20.00	\$ 54.93	\$ 12,524.93
Goodnews Bay	84	21	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 67.80	\$ 20.00	\$ 47.80	\$ 12,044.93
Grayling	67	17	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 83.75	\$ 20.00	\$ 63.75	\$ 13,004.93
Hobart Bay	33	9	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 154.86	\$ 20.00	\$ 134.86	\$ 14,564.93
Holla	76	19	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 74.93	\$ 20.00	\$ 54.93	\$ 12,524.93
Holy Cross	89	23	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 61.90	\$ 20.00	\$ 41.90	\$ 11,564.93
Hooper Bay	244	61	8	\$ 30.00	\$ 240.00	1	\$ 1,043.69	\$ 100.00	\$ 1,383.69	\$ 4,500.00	\$190.05	\$1,573.74	\$ 25.80	\$ 20.00	\$ 5.80	\$ 4,244.93
Hughes	49	13	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 107.21	\$ 20.00	\$ 87.21	\$ 13,604.93
Huslia	115	29	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 50.13	\$ 20.00	\$ 30.13	\$ 10,484.93
Igiugig	32	8	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 170.47	\$ 20.00	\$ 150.47	\$ 14,444.93
Iliamna	217	55	7	\$ 30.00	\$ 210.00	1	\$ 1,043.69	\$ 100.00	\$ 1,353.69	\$ 4,500.00	\$190.05	\$1,543.74	\$ 28.07	\$ 20.00	\$ 8.07	\$ 5,324.93
Ivanoff Bay	28	7	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 184.82	\$ 20.00	\$ 174.82	\$ 14,684.93
Kakhonak	76	19	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 74.93	\$ 20.00	\$ 54.93	\$ 12,524.93
Kaktovik	195	49	7	\$ 30.00	\$ 210.00	1	\$ 1,043.69	\$ 100.00	\$ 1,353.69	\$ 4,500.00	\$190.05	\$1,543.74	\$ 31.50	\$ 20.00	\$ 11.50	\$ 6,764.93
Kalskag	155	39	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 38.04	\$ 20.00	\$ 18.04	\$ 8,444.93
Kaituk	114	29	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 50.13	\$ 20.00	\$ 30.13	\$ 10,484.93
Karluk	28	7	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 184.82			

Location	Access Lines	Potential ISP Customers	LEC Bus. Lines	Cost per Bus. Line	Line Cost / Mnth.	56 Kbps Circuits	Cost per 56 Kbps	Anch. Costs / Mnth.	Total Recurring Costs	Non-Recurring Router Cost	Ammortized Cost per Mnth. (Router)	Total Monthly Cost	Monthly Cost per Customer	Benchmark ISP Rate (Anchorage)	Monthly Subsidy per Customer	Yearly Subsidy per Village
Klana	137	35	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 42.39	\$ 20.00	\$ 22.39	\$ 9,404.93
Kling Cove	352	88	11	\$ 30.00	\$ 330.00	1	\$ 1,043.69	\$ 100.00	\$ 1,473.69	\$ 4,500.00	\$190.05	\$1,663.74	\$ 18.91	\$ 20.00	\$ (1.09)	\$ (1,155.07)
Kipnuk	176	44	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 34.40	\$ 20.00	\$ 14.40	\$ 7,604.93
Kivalina	112	28	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 51.92	\$ 20.00	\$ 31.92	\$ 10,724.93
Kobuk	48	12	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 116.15	\$ 20.00	\$ 96.15	\$ 13,944.93
Koilganek	58	15	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 92.92	\$ 20.00	\$ 72.92	\$ 13,124.93
Kongiganak	100	25	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 58.15	\$ 20.00	\$ 38.15	\$ 11,444.93
Kollik	142	36	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 41.22	\$ 20.00	\$ 21.22	\$ 9,164.93
Koyuk	120	30	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 48.46	\$ 20.00	\$ 28.46	\$ 10,244.93
Koyukuk	63	16	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 87.11	\$ 20.00	\$ 67.11	\$ 12,884.93
Kwethluk	172	43	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 35.20	\$ 20.00	\$ 15.20	\$ 7,844.93
Kwigillingok	111	28	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 51.92	\$ 20.00	\$ 31.92	\$ 10,724.93
Larsen Bay	112	28	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 51.92	\$ 20.00	\$ 31.92	\$ 10,724.93
Lavelock	58	15	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 92.92	\$ 20.00	\$ 72.92	\$ 13,124.93
Lime Village	21	6	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 227.29	\$ 20.00	\$ 207.29	\$ 14,924.93
Little Diomede	59	15	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 92.92	\$ 20.00	\$ 72.92	\$ 13,124.93
Manley Hot Springs	77	20	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 71.19	\$ 20.00	\$ 51.19	\$ 12,284.93
Manokotak	107	27	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 53.84	\$ 20.00	\$ 33.84	\$ 10,964.93
Marshall	98	25	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 58.15	\$ 20.00	\$ 38.15	\$ 11,444.93
McCarthy	28	7	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 194.82	\$ 20.00	\$ 174.82	\$ 14,684.93
McGrath	435	109	14	\$ 30.00	\$ 420.00	1	\$ 1,043.69	\$ 100.00	\$ 1,563.69	\$ 4,500.00	\$190.05	\$1,753.74	\$ 16.09	\$ 20.00	\$ (3.91)	\$ (5,115.07)
Mekoryuk	92	23	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 61.90	\$ 20.00	\$ 41.90	\$ 11,564.93
Minchumina (Lake)	27	7	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 194.82	\$ 20.00	\$ 174.82	\$ 14,684.93
Minto	70	18	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 79.10	\$ 20.00	\$ 59.10	\$ 12,764.93
Mountain Village	243	61	8	\$ 30.00	\$ 240.00	1	\$ 1,043.69	\$ 100.00	\$ 1,383.69	\$ 4,500.00	\$190.05	\$1,573.74	\$ 25.80	\$ 20.00	\$ 5.80	\$ 4,244.93
Napaklak	104	26	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 55.91	\$ 20.00	\$ 35.91	\$ 11,204.93
Napaklak	124	31	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 46.89	\$ 20.00	\$ 26.89	\$ 10,004.93
Naukitt	77	20	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 71.19	\$ 20.00	\$ 51.19	\$ 12,284.93
Nelson Lagoon	76	19	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 74.83	\$ 20.00	\$ 54.83	\$ 12,524.93
New Stuyahok	107	27	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 53.84	\$ 20.00	\$ 33.84	\$ 10,964.93
Newtok	73	19	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 74.83	\$ 20.00	\$ 54.83	\$ 12,524.93
Nightmute	71	18	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 79.10	\$ 20.00	\$ 59.10	\$ 12,764.93
Nikolai	41	11	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 126.70	\$ 20.00	\$ 106.70	\$ 14,084.93
Nikolski	41	11	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 126.70	\$ 20.00	\$ 106.70	\$ 14,084.93
Noatak	117	30	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 48.46	\$ 20.00	\$ 28.46	\$ 10,244.93
Nondaton	118	30	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 48.46	\$ 20.00	\$ 28.46	\$ 10,244.93
Noorvik	176	45	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 33.64	\$ 20.00	\$ 13.64	\$ 7,364.93
Nulqsut	287	72	9	\$ 30.00	\$ 270.00	1	\$ 1,043.69	\$ 100.00	\$ 1,413.69	\$ 4,500.00	\$190.05	\$1,603.74	\$ 22.27	\$ 20.00	\$ 2.27	\$ 1,964.93
Nulato	134	34	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 43.64	\$ 20.00	\$ 23.64	\$ 9,644.93
Nunapitchuk	130	33	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 44.96	\$ 20.00	\$ 24.96	\$ 9,884.93
Old Harbor	127	32	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 45.43	\$ 20.00	\$ 25.43	\$ 9,764.93
Ouzinkie	147	37	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 40.10	\$ 20.00	\$ 20.10	\$ 8,924.93
Pedro Bay	64	16	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 87.11	\$ 20.00	\$ 67.11	\$ 12,884.93
Perryville	76	19	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 74.83	\$ 20.00	\$ 54.83	\$ 12,524.93
Pilot Point	91	23	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 61.90	\$ 20.00	\$ 41.90	\$ 11,564.93
Pilot Station	127	32	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 45.43	\$ 20.00	\$ 25.43	\$ 9,764.93
Platinum	33	9	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 154.86	\$ 20.00	\$ 134.86	\$ 14,564.93
Point Baker	34	9	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 154.86	\$ 20.00	\$ 134.86	\$ 14,564.93
Point Hope	295	74	10	\$ 30.00	\$ 300.00	1	\$ 1,043.69	\$ 100.00	\$ 1,443.69	\$ 4,500.00	\$190.05	\$1,633.74	\$ 22.08	\$ 20.00	\$ 2.08	\$ 1,844.93
Point Lay	130	33	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 44.96	\$ 20.00	\$ 24.96	\$ 9,884.93
Port Alexander	70	18	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 79.10	\$ 20.00	\$ 59.10	\$ 12,764.93
Port Alsworth	102	26	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 55.91	\$ 20.00	\$ 35.91	\$ 11,204.93
Port Graham	108	28	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 51.92	\$ 20.00	\$ 31.92	\$ 10,724.93
Port Heiden	102	26	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 55.91	\$ 20.00	\$ 35.91	\$ 11,204.93
Port Lions	147	37	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 40.10	\$ 20.00	\$ 20.10	\$ 8,924.93
Quinhagak	176	44	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 34.40	\$ 20.00	\$ 14.40	\$ 7,604.93
Rampart	33	9	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 154.86	\$ 20.00	\$ 134.86	\$ 14,564.93
Red Devil	29	8	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 170.47	\$ 20.00	\$ 150.47	\$ 14,444.93
Red Dog Mine	242	61	8	\$ 30.00	\$ 240.00	1	\$ 1,043.69	\$ 100.00	\$ 1,383.69	\$ 4,500.00	\$190.05	\$1,573.74	\$ 25.80	\$ 20.00	\$ 5.80	\$ 4,244.93
Ruby	86	24	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 74.83	\$ 20.00	\$ 54.83	\$ 12,524.93
Russian Mission	96	24	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 74.83	\$ 20.00	\$ 54.83	\$ 12,524.93
Sand Point	507	127	16	\$ 30.00	\$ 480.00	2	\$ 2,087.38	\$ 100.00	\$ 2,687.38	\$ 4,500.00	\$190.05	\$2,857.43	\$ 22.50	\$ 20.00	\$ 2.50	\$ 3,809.21
Savoogna	176	44	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 34.40	\$ 20.00	\$ 14.40	\$ 7,604.93
Scammon Bay	120	30	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 48.46	\$ 20.00	\$ 28.46	\$ 10,244.93
Selawik	171	43	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 35.20</			

Location	Access Lines	Potential ISP Customers	LEC Bus. Lines	Cost per Bus. Line	Line Cost / Mnth.	56 Kbps Circuits	Cost per 56 Kbps	Anch. Costs / Mnth.	Total Recurring Costs	Non-Recurring Router Cost	Ammortized Cost per Mnth. (Router)	Total Monthly Cost	Monthly Cost per Customer	Benchmark ISP Rate (Anchorage)	Monthly Subsidy per Customer	Yearly Subsidy per Village
Shishmaref	200	50	7	\$ 30.00	\$ 210.00	1	\$ 1,043.69	\$ 100.00	\$ 1,353.69	\$ 4,500.00	\$190.05	\$1,543.74	\$ 30.87	\$ 20.00	\$ 10.87	\$ 6,524.93
Shungnak	60	20	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 71.19	\$ 20.00	\$ 51.19	\$ 12,284.93
Sleetmute	40	10	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 139.37	\$ 20.00	\$ 119.37	\$ 14,324.93
St. George Island	167	42	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 36.04	\$ 20.00	\$ 16.04	\$ 8,084.93
St. Marys	273	69	9	\$ 30.00	\$ 270.00	1	\$ 1,043.69	\$ 100.00	\$ 1,413.69	\$ 4,500.00	\$190.05	\$1,603.74	\$ 23.24	\$ 20.00	\$ 3.24	\$ 2,684.93
St. Michael	134	34	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 43.64	\$ 20.00	\$ 23.64	\$ 9,644.93
St. Paul Island	446	112	14	\$ 30.00	\$ 420.00	1	\$ 1,043.69	\$ 100.00	\$ 1,563.69	\$ 4,500.00	\$190.05	\$1,753.74	\$ 15.66	\$ 20.00	\$ (4.34)	\$ (5,835.07)
Stebbins	139	35	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 42.39	\$ 20.00	\$ 22.39	\$ 9,404.93
Stevens Village	34	9	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 154.86	\$ 20.00	\$ 134.86	\$ 14,564.93
Stoney River	21	6	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 227.29	\$ 20.00	\$ 207.29	\$ 14,024.93
Takotna	33	9	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 154.86	\$ 20.00	\$ 134.86	\$ 14,564.93
Tanana	156	39	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 38.04	\$ 20.00	\$ 18.04	\$ 8,444.93
Talitlek	44	11	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 126.70	\$ 20.00	\$ 106.70	\$ 14,084.93
Telida	3	1	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 1,363.74	\$ 20.00	\$ 1,343.74	\$ 16,124.93
Teller / Brevig Missio	192	48	6	\$ 30.00	\$ 180.00	1	\$ 1,043.69	\$ 100.00	\$ 1,323.69	\$ 4,500.00	\$190.05	\$1,513.74	\$ 31.54	\$ 20.00	\$ 11.54	\$ 6,644.93
Togiak	260	65	9	\$ 30.00	\$ 270.00	1	\$ 1,043.69	\$ 100.00	\$ 1,413.69	\$ 4,500.00	\$190.05	\$1,603.74	\$ 24.67	\$ 20.00	\$ 4.67	\$ 3,644.93
Toksook Bay	148	37	5	\$ 30.00	\$ 150.00	1	\$ 1,043.69	\$ 100.00	\$ 1,293.69	\$ 4,500.00	\$190.05	\$1,483.74	\$ 40.10	\$ 20.00	\$ 20.10	\$ 9,924.93
Tuluksak	75	19	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 74.93	\$ 20.00	\$ 54.93	\$ 12,524.93
Tuntutuliak	96	24	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 59.32	\$ 20.00	\$ 39.32	\$ 11,324.93
Tununak	101	26	4	\$ 30.00	\$ 120.00	1	\$ 1,043.69	\$ 100.00	\$ 1,263.69	\$ 4,500.00	\$190.05	\$1,453.74	\$ 55.91	\$ 20.00	\$ 35.91	\$ 11,204.93
Twin Hills	29	8	1	\$ 30.00	\$ 30.00	1	\$ 1,043.69	\$ 100.00	\$ 1,173.69	\$ 4,500.00	\$190.05	\$1,363.74	\$ 170.47	\$ 20.00	\$ 150.47	\$ 14,444.93
Unalakleet	457	115	15	\$ 30.00	\$ 450.00	1	\$ 1,043.69	\$ 100.00	\$ 1,593.69	\$ 4,500.00	\$190.05	\$1,783.74	\$ 15.51	\$ 20.00	\$ (4.49)	\$ (6,195.07)
Venetie	64	16	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 87.11	\$ 20.00	\$ 67.11	\$ 12,884.93
Wainwright	278	70	9	\$ 30.00	\$ 270.00	1	\$ 1,043.69	\$ 100.00	\$ 1,413.69	\$ 4,500.00	\$190.05	\$1,603.74	\$ 22.91	\$ 20.00	\$ 2.91	\$ 2,444.93
Wales	78	20	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 71.19	\$ 20.00	\$ 51.19	\$ 12,284.93
Whale Pass	35	9	2	\$ 30.00	\$ 60.00	1	\$ 1,043.69	\$ 100.00	\$ 1,203.69	\$ 4,500.00	\$190.05	\$1,393.74	\$ 154.86	\$ 20.00	\$ 134.86	\$ 14,564.93
White Mountain	96	22	3	\$ 30.00	\$ 90.00	1	\$ 1,043.69	\$ 100.00	\$ 1,233.69	\$ 4,500.00	\$190.05	\$1,423.74	\$ 64.72	\$ 20.00	\$ 44.72	\$ 11,804.93
Yelutut	568	142	18	\$ 30.00	\$ 540.00	2	\$ 2,087.38	\$ 100.00	\$ 2,727.38	\$ 4,500.00	\$190.05	\$2,917.43	\$ 20.55	\$ 20.00	\$ 0.55	\$ 828.21
Summary	19,506	4877	691		\$ 20,730.00	166	\$ 173,252.54	\$ 16,400.00	\$ 210,382.54		\$ 31,168.82	\$ 241,551.36	\$49.53			\$ 1,715,176.27

# END-TO-END CUSTOMNET RATES COMPARED TO END-TO-END WHOLESALE RATES



STATE OF ALASKA

REGULATORY COMMISSION OF ALASKA

Before Commissioners:

G. Nanette Thompson, Chair  
Burnell Smith  
Patricia DeMarco  
Wilfred K. Abbott  
James S. Strandberg

In the Matter of the Consideration of the Reform )  
of Intrastate Interexchange Telecommunications )  
Market Structure and Regulation in Alaska )

Docket No. R-98-1

AFFIDAVIT OF ROBERT E. KARGOLL

STATE OF CALIFORNIA )

) ss:

\_\_\_\_\_ COUNTY )

Robert E. Kargoll, being first duly sworn upon oath, deposes and states:

INTRODUCTION

1. My name is Robert E. Kargoll. My business address is 795 Folsom Street, Room 2156, San Francisco, California 94107. I am employed by AT&T Corp. ("AT&T") as a Division Manager in the Law and Government Affairs ("L&GA") organization. In this capacity, I am responsible for developing and implementing AT&T's regulatory policies regarding long distance and emerging local exchange competition.

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2. I hold an M.A. (1977) and Ph.D. (1980) in economics from the University of Kentucky. Prior to joining AT&T in 1983, I worked for the Massachusetts Department of Public Utilities ("MDPU"). While at the MDPU, I worked as an economist in the Electric Power Division, analyzing utility pricing proposals and developing unit generating performance criteria. Since joining AT&T in 1983, I have held numerous positions, and have been responsible for (among other things) developing econometric forecasting models, preparing business cases for internal data processing and telecommunications projects, and, more recently, handling issues involving local exchange carrier relations, local exchange and intraLATA competition, and numerous regulatory matters. I assumed my current position in July 1995.

3. As a member of AT&T's L&GA organization, I have participated in a number of state regulatory proceedings concerning telecommunications services. I have testified before numerous state commissions on a variety of telecommunications issues, including the safeguards needed for the development of local exchange competition, appropriate marketing and pricing practices by local exchange carriers ("LECs") and their affiliates, and access to customer proprietary network information ("CPNI").

4. The purpose of this affidavit is to provide economic analysis and present the recommendations of AT&T Alascom regarding several of the significant issues raised in the interexchange carrier ("IXC") market structure proceeding (R-98-1). I will specifically discuss AT&T Alascom's recommendations regarding the wholesale tariff, IXC network unbundling, dominant carrier regulation for AT&T Alascom, IXC regulation generally and subsidy support for rural Alaskan

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communities. Because Regulatory Commission of Alaska ("Commission") Staff has addressed many of these same issues,<sup>1</sup> I will also contrast Staff's recommendations to those of AT&T Alascom.

### WHOLESALE TARIFF AND IXC UNBUNDLING

5. Staff's Report contains several recommendations which address the issue of the wholesale services provided to IXC resellers, as well as the wholesale rates and rate structures that should be made available to resellers by facilities-based carriers, such as AT&T Alascom. Given the importance of resellers in the telecommunications market, the prominent role given to reseller issues in Staff's Report is certainly not misplaced. The large volume user and reseller market segments are important both for IXC competition and as a business opportunity for the underlying facilities-based carriers. Nevertheless, implementation of certain of Staff's recommendations, especially with respect to the wholesale tariff and IXC unbundling (Staff Report, pp. 10 and 14-15), would make it more difficult for facilities-based IXCs, such as AT&T Alascom, to meet reseller needs quickly, effectively, and economically. Moreover, Staff's recommendations would stall, as opposed to strengthen, the competitive growth that Alaska has experienced thus far in the intrastate toll market, and thus make for poor public policy.

6. In any discussion regarding toll resale and how best to strengthen intrastate toll competition, it is useful to examine the role of resellers in the interstate toll market, and how interstate toll resale has developed and grown. Clearly, resellers in the interstate toll market comprise a key

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<sup>1</sup>See, Memorandum from Common Carrier Specialist, Lori Kenyon, to the Commission, dated October 16, 1998.

market segment. Currently, there are hundreds of resellers operating in the interstate market. Since the inception of interstate toll competition over twenty years ago, toll resale has been, and continues to be, an important factor in making the toll market as competitive as possible. The FCC's requirement that AT&T permit the resale of its interstate toll offerings has meant that resellers have been able to bring the benefits of the low prices offered to high-volume customers to the medium- and low-volume segments. In addition, IXCs have been able to expand their service areas and customer base through the resale of high-volume services. Depending on the extent to which a reseller owns its own transport and switching facilities, a reseller can either purchase bulk service off the shelf from offerings, such as AT&T's MegaCom, SDN and CustomNet, primarily used by large business customers, or by negotiating with a facilities-based IXC for a bulk service tailored to its own particular circumstances.

7. Resale has also resulted in the growth of facilities-based toll competition. For certain present-day *facilities-based* carriers, such as MCI Worldcom and Sprint, resale of retail services initially enabled these carriers to get customers, and customer revenue, while they constructed their own networks.

8. The FCC's resale requirement for AT&T's interstate toll services has not only provided end-user customers with a wider variety of carriers to choose from, it has also helped ensure that retail rates remain cost-based for all customer segments.

9. As competition developed in the interstate toll market, facilities-based carriers introduced various services targeted to the needs of specific customer segments. For the high-volume customer segment, carriers were able to use the efficiencies gained by providing service in "bulk" to

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offer these customers toll rates lower than those offered to medium- or low-volume customers. If the "spread" between the rates charged to these customer segments were not cost-justified, reseller presence acts to bring prices at both the high and low end of the toll market more in line with cost. For example, if low-volume customer toll prices are higher than cost-based levels, the presence of resellers ensures that resellers can undercut facilities-based carriers prices for such services and win customers. And, competition among facilities-based providers, which vie for the business of high-volume customers and resellers, ensures that aggressive price competition exists for bulk services. Consequently, cost-based prices for *all* market segments are maintained because resellers serve low- and medium-volume customers by purchasing many of the same *retail* services large customers purchase. The role that the unrestricted resale requirement has played in the development of competition in the interstate toll market should not be overlooked by policy makers in Alaska. Nor should the fact that both facilities-based carriers and resellers are successfully competing the interstate market without the presence of a mandated wholesale tariff or IXC network unbundling.

10. As discussed in Mark Vasconi's affidavit, the development of competition in the *intrastate* toll market in Alaska is, in many important respects, similar to what has occurred on the interstate level. For example, despite of the presence of a legally-mandated intrastate wholesale toll tariff in Alaska, resellers have been making heavy use of their option to purchase *retail* toll offerings. For example, AT&T Alascom's CustomNet service (a retail offering typically purchased by large business customers), is more popular among resellers than the Wholesale Tariff. In fact, for many resellers CustomNet is their sole vehicle for resale. Because CustomNet prices are geographically

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averaged across the state, include access charges, and provide resellers with a recording and billing option, CustomNet is more suited to the needs of resellers who have little or no facilities of their own. While CustomNet is a viable, economic option even for carriers in urban areas, it is especially beneficial for those resellers who have many customers who reside outside of urban areas.

11. The fact that many of Alaska's resellers are more inclined to serve customers through the resale of existing retail service offerings, rather than through the Wholesale Tariff, is no doubt also driven by circumstances particular to Alaska. Certainly, a necessary condition for the success of any reseller is the availability of bulk services that provide the reseller with a margin when resold to end-user customers. Obviously, resellers cannot be profitable without a margin that at least covers the cost of the bulk services they purchase, as well as their own retail costs of doing business. Services like CustomNet, then, offer certain resellers the requisite margin between low, bulk-priced toll services and higher-priced residential and small business toll services.

12. This margin, however, is often unattainable under the current Wholesale Tariff. Unlike CustomNet or other retail services, the AT&T Alascom's Wholesale Tariff is geographically deaveraged into three separate zones, representing the high, medium and low-density areas of the state. Inadequate margins may also be likely for purchases of unbundled IXC network components, should the Commission ultimately decide to order carriers to make such unbundling available. Neither of these service arrangements can be relied upon to provide resellers with the needed margins.

13. Because of the existence of both a requirement for statewide averaged retail toll prices (which both AT&T Alascom and the Staff support) and a requirement that the Wholesale Tariff and,

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if adopted, IXC unbundled component prices, be cost-based, resellers may find both of these options unsuitable. In many cases, resellers with customers who reside in the low-density areas of the state, where AT&T Alascom's costs are the highest, may find that little or no margin exists between the wholesale prices they face and the retail prices they can charge. For example, as Mr. Vasconi points out, the per-minute price that a reseller pays under the cost-based Wholesale Tariff for a call originating in Category 3 (low-density) locations, plus LEC access charges, may well exceed 30 cents, which is significantly greater than the 22.5 cents statewide-average, per-minute price that the reseller would charge its retail customer.

14. Nor is the solution to this problem to eliminate one, or both, of the requirements that apply to retail and wholesale services. Geographically-averaged toll prices are required in both the interstate and intrastate jurisdictions. Even if this requirement did not exist, however, geographically-*deaveraged* toll rates could not be implemented without considering the ramifications of such a pricing structure on the communities and businesses in rural areas. Nor can wholesale rates, or potentially IXC unbundled components, be set at non-cost based prices. Unlike the requirement for geographically-averaged end-user toll prices contained in federal statute,<sup>2</sup> no such requirement exists for wholesale services provided to resellers. The Act's pricing provisions are, in fact, based on the opposite logic. While the Act's unbundling, and unbundled element pricing, provisions are not applicable to IXCs, these provisions are nevertheless instructive. The Act requires that LEC

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<sup>2</sup>Telecommunications Act of 1996 (the "Act"), § 254(g).

interconnection and unbundled network component prices based on cost.<sup>3</sup> This includes any geographic cost differences that may exist. The Act's mandate for cost-based pricing for LEC interconnection and network components properly recognizes that requiring facilities-based carriers to sell services to resellers at prices that do not adequately reflect costs is the surest way to destroy facilities-based competition.

15. The solution that best addresses the needs of resellers and facilities-based IXCs is to let the competitive market forces, now adequately present in the intrastate toll market, to operate. Facilities-based carriers have every incentive to seek out the business of high-volume customers and resellers. As discussed by Mr. Vasconi, recent and planned network capacity additions by facilities-based carriers in Alaska will ensure that competition for resellers who generate the volumes necessary to fill this capacity becomes even more aggressive. Facilities-based carriers have a growing need, and every incentive, to work with resellers. Often, this will mean that resellers continue to use retail services, purchased in bulk, to serve smaller customers. In certain instances, it may mean that facilities-based carriers will need to work with a reseller to tailor a particular service to meet that particular reseller's need. But it is important to allow carriers to work between themselves to achieve these results, and not "force fit" generic, legally-mandated wholesale services on the industry.

16. Permitting competitive market forces to work in this manner will also obviate the need for all parties (facilities-based carriers, resellers, and the Commission) to participate in time- and resource-consuming regulatory proceedings that, ultimately, will do little to advance the state of toll

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<sup>3</sup>§ 252(d)(1)(A).

competition in Alaska. Even continuing to maintain the legally-required Wholesale Tariff forces facilities-based carriers, resellers, and the Staff to expend resources without corresponding benefits. Because reseller needs can be met through the resale of retail service offerings and through special, carrier-to-carrier arrangements, the Wholesale Tariff is redundant.

17. An even more onerous requirement for facilities-based carriers would be the adoption of Staff's ill-conceived recommendation to force such carriers to unbundle their networks into eight separate components. (Staff Report, pp. 14-15) As a threshold matter, no other state regulatory agency has ever engaged in the IXC network unbundling activity proposed by Staff. And, based on my experience in state proceedings establishing prices for LEC unbundled components, which are required by the Act, such proceedings are almost always complicated, lengthy and highly contentious, and require all parties to expend a tremendous amount of resources. While facilities-based IXCs should be free to offer any of the unbundled components recommended by Staff, or other elements demanded by the marketplace, the Commission should not mandate IXC network unbundling. Staff's proposal would necessarily mean that facilities-based carriers, and their potential reseller customers, would spend more time in regulatory proceedings and less time in business-to-business meetings. Yet, such business-to-business meetings are the most effective way for facilities-based carriers to create the services, and service components, that resellers actually want.

18. The Staff's IXC network unbundling proposal appears to take a very pessimistic view of the ability of competitive forces to develop the services resellers want. As Mr. Vasconi states, AT&T Alascom is ready to negotiate with resellers to accommodate requests for special service

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arrangements, when the reseller's needs cannot be met through existing retail service plans. And, as Mr. Vasconi discusses, AT&T Alascom is committed to work with a reseller on a one-on-one basis to explore other options. In those instances where a reseller and a facilities-based carrier cannot come to an agreement, Commission complaint procedures can then be used to resolve the issue. It is important, however, that the Commission not assume that retail services, or carrier-to-carrier negotiation will fail to provide resellers with what they want.

19. Thus, based on the resale experience in the interstate market, as well as on how resale competition has developed thus far in Alaska, the Commission can best attain the pro-consumer results that resale can bring about by *eliminating* the IXC wholesale tariff<sup>4</sup> and by not adopting mandatory unbundling requirements. The Commission should, instead, continue to allow facilities-based carriers to provide services to resellers through the resale of existing retail offerings, like CustomNet, or through special negotiated service arrangements between carriers.

#### DOMINANT CARRIER REGULATION OF AT&T ALASCOM

20. Staff proposes to maintain AT&T Alascom's current "dominant carrier" regulatory designation. (Staff Report, pp. 28 and 34.) Staff bases its recommendation on AT&T Alascom's "majority" retail market share, and its facilities monopoly in certain Bush areas. Staff also believes that AT&T Alascom's price reductions have been too few to warrant a competitive designation. (Staff Report, p. 34)

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<sup>4</sup>If the Commission is concerned about the availability of wholesale services in areas where AT&T Alascom retains a facilities monopoly, AT&T Alascom would support continuing the Category 3 (high-cost, low-density) portion of its Wholesale Tariff.

21. As the Commission is aware, the question of whether AT&T maintains a "dominant" position in the toll market, on both an intrastate and interstate basis, has been addressed by numerous state regulatory commissions as well as by the FCC. To the best of my knowledge, with the single exception of Alaska, these regulatory agencies have concluded that AT&T *is not* a dominant provider and cannot use market power to maintain prices at higher than competitive levels. Moreover, these regulatory agencies have generally made this determination based upon a rigorous analysis of the toll marketplace.

22. For example, in 1995, the FCC decided to reclassify AT&T as a non-dominant toll provider for interstate services, including the retail, interstate services provided by AT&T Alascom.<sup>5</sup> The FCC removed the dominant carrier label, and associated regulation, from AT&T after conducting a comprehensive analysis of toll demand and supply elasticities, network capacity and market share. Based upon its analysis of these marketplace parameters, the FCC concluded that AT&T lacked market power and thus should be reclassified as a non-dominant provider.<sup>6</sup>

23. Two years later, in 1997, the California Public Utilities Commission ("CPUC") similarly reclassified AT&T as a non-dominant intrastate toll provider.<sup>7</sup> After examining a variety of

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<sup>5</sup>*In Re: Motion of AT&T Corp. to be Reclassified as a Non-Dominant Carrier, Order*, 11 FCC Rcd. 3271 (1995) ("Reclassification Order").

<sup>6</sup>Interestingly, at the time of the FCC's reclassification of AT&T as a non-dominant provider, AT&T's interstate minutes-of-use market share stood at approximately 60 percent, which is approximately equal to AT&T Alascom's current intrastate (originating and terminating) market share. (Reclassification Order, ¶ 67)

<sup>7</sup>CPUC Decision 97-08-060, August 1, 1997. ("CPUC Order")

marketplace characteristics, such as carrier market share, network capacity, and ease of market entry and exit, the CPUC found that AT&T no longer possessed significant market power, and that dominant carrier regulation of AT&T would cease.<sup>8</sup>

24. In contrast to the analyses conducted by the FCC and the CPUC, Staff's recommendation that AT&T Alascom retain its dominant carrier designation is based on only a few limited facts, and overlooks key attributes of Alaska's toll market. As discussed further below, if the Alaska toll market is examined in a manner similar to the analyses done by the FCC and CPUC, a non-dominant carrier designation for AT&T Alascom will also be justified.

25. As the state's sole IXC regulated as a dominant provider, AT&T Alascom is subject to more regulation than any other IXC. For example, as a dominant carrier, AT&T Alascom is subject to the same rate-of-return and earnings regulation that the Commission applies to the LECs, in spite of the fact that most LECs are monopoly providers throughout their service territories. AT&T Alascom, for example, is the only IXC required to file detailed financial information using the FCC's Uniform System of Accounts ("USOA"). In almost all other state jurisdictions, AT&T is not subject to the USOA reporting requirement. Under this requirement, AT&T must bear an added, unnecessary expense that its competitors do not.

26. Dominant carrier regulation may have been warranted for AT&T Alascom in 1991, when the market for IXC services was first opened to competition in Alaska. As discussed below,

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<sup>8</sup>CPUC Order, p. 23.

however, competitive conditions in the IXC market now make such regulation both unnecessary and inefficient.

27. Historically, policy makers have sought to regulate the services, prices and earnings of firms thought to possess market power. Market power is the ability of a firm to raise, and successfully maintain, prices in excess of competitive levels. Because firms which can raise prices in such a manner rob consumers of the benefits of competition, regulatory intervention is warranted. In order to determine whether a particular firm possesses market power, and thus whether regulatory intervention is justified, policy makers typically examine the following three fundamental factors:<sup>9</sup>

(a) **The responsiveness of other firms**. Any firm contemplating an increase in price above competitive levels must consider the extent to which rival firms can be expected to respond by increasing the availability of their own output. Increases in output by rivals will exert a downward pressure on market price, reducing or eliminating the original price increase. Thus, where other firms are sufficiently willing and able to meet customer demand in response to an increase in market price by successfully expanding their output, the firm in question will face effective competition.

(b) **Market share characteristics**. Generally speaking, market share and market power are thought to be positively related. This is because a firm with a large market share can have a larger impact on the supply of output and price, than a firm with a small market share. Market shares can be calculated on the basis of revenues, minutes-of-use ("MOU"), and network capacity. Network capacity

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<sup>9</sup>Both the FCC's and the CPUC's analyses examined these factors.

market shares are especially revealing because such figures demonstrate the ability of other firms to expand output in response to an attempted price increase by the firm in question.

(c) Market demand characteristics. Information about the distribution or "skewness" of demand and the willingness of customers to switch carriers provide valuable information about the ability of a firm to maintain a *supra* competitive price increase. It is difficult, if not impossible, for a firm to maintain such a price increase where large customers seek out, and get, the lowest prices and where customers have demonstrated their willingness to switch providers.

28. Based upon an examination of each of these criteria, it is clear that the Alaska IXC market is effectively competitive and constrains AT&T Alascom's ability to maintain prices above competitive levels.

29. For example, with respect to the responsiveness of other firms, the available data indicates that there are over 60 IXCs operating in Alaska. These carriers offer customers a breadth of services equivalent to those offered by AT&T Alascom. And, as discussed further below, the facilities-based competitors of AT&T Alascom have abundant network capacity to capture new customers and expand their output. Thus, the Alaska IXC marketplace is characterized by multiple firms which possess both the willingness and ability to respond to any perceived opportunity to expand their output in the face of an AT&T Alascom price increase.

30. Furthermore, while Staff is correct in pointing out that AT&T Alascom has a facilities monopoly in certain Bush locations, such locations account for less than 10 percent of Alaska's access lines. And, because all IXCs, including AT&T Alascom, are required to maintain statewide average

rates, customers in these Bush locations are afforded the benefits of aggressive price competition in urban areas. Consequently, AT&T Alascom cannot use the market power it may possess in areas where it maintains a facilities monopoly to raise prices above competitive levels, without losing customers in the areas of the state where it faces aggressive competition.

31. An analysis of intrastate toll market share data demonstrates that AT&T Alascom currently faces robust competition. AT&T Alascom retains only a 56 percent market share for originating and terminating intrastate access minutes of use ("MOU") based on October 1999 data. AT&T Alascom's intrastate originating access MOU market share is even less – 49.5 percent.<sup>10</sup> This represents a dramatic loss of market share since the early 1990s, when AT&T Alascom's share was greater than 90 percent. The market shares that AT&T Alascom's competitors have been able to garner over this period demonstrate that these firms are today successfully competing in the market.

32. Importantly, as Mr. Vasconi points out, by the end of 1999, in the key urban market areas of Anchorage, Fairbanks and Juneau, AT&T Alascom's originating MOU trailed GCI's market share by almost 10 percentage points.<sup>11</sup> It is counter-intuitive, to say the least, that AT&T Alascom remains regulated as a dominant IXC when it can no longer even lay claim to having the largest market share in urban areas.

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<sup>10</sup>As Mr. Vasconi discusses, a market assessment based on originating minutes is more revealing than total minutes because it more accurately represents customer choice.

<sup>11</sup>In addition to demonstrating AT&T Alascom's lack of market power, AT&T Alascom's low market share in urban areas also shows why it can no longer subsidize high-cost Bush traffic with revenues from its urban customers.

33. An examination of AT&T Alascom's capacity market share demonstrates, perhaps even more dramatically, the fact that AT&T Alascom cannot exert market power over toll services. Recall that capacity market share reveals the extent to which other IXC's can successfully expand their output, and take on new customers, in the face of a attempt by AT&T Alascom to raise prices above competitive levels. As Mr. Vasconi indicates, GCI, Alaska Fiber Star ("AFS"), KANAS, and other providers have made significant capital investments deploying facilities that carry wholesale and retail toll traffic to and from Anchorage, Fairbanks, Juneau, Valdez and Prudhoe Bay. Currently, these facilities-based carriers have between 10 and 30 times more network capacity than AT&T Alascom has on the Anchorage-Fairbanks, Anchorage-Juneau, and Valdez-Prudhoe Bay routes. Clearly, these facilities-based competitors are fully able to take on additional customers and customer toll traffic.

34. The presence of other facilities-based carriers should also put to rest concerns that an AT&T Alascom/GCI duopoly could, through collusion, exert enough market power to maintain prices above competitive levels. Other facilities-based carriers have made significant investments in constructing telecommunications networks in Alaska. The financial markets demand that carriers now fill these networks with customer traffic in order to earn a return on this investment. Even assuming that carriers, working together, could maintain toll prices at levels higher than what would be dictated by competition, such a strategy would make it more difficult for carriers to earn the necessary returns because higher prices would dampen customer demand. This holds true regardless of whether the "colluding" carriers in question are AT&T Alascom and GCI, or another pair or group of carriers.

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35. Finally, the distribution of AT&T Alascom's customer demand indicates the likelihood of vigorous competitive rivalry among market players. A typical feature of toll markets is that only a small percentage of customers generate a relatively high level of minutes. And, these large customers have a pronounced incentive to switch to other carriers to get a better price. Any attempt by AT&T Alascom to raise its prices above competitive levels would make it financially attractive for these large consumers to switch. Nor are large customers the only customers who are able to get low prices. Because all of AT&T Alascom's services are subject to resale, resellers are able to purchase "large customer" services, such as CustomNet, and pass along some of the large customer discount to small users.

36. This, and other, competitive forces present in the Alaska intrastate toll market have resulted in steadily declining prices. For example, AT&T Alascom's toll prices have dropped from an average of 32.0 cents per MOU in 1991, to 22.5 cents today. Importantly, this toll price decrease is greater than the price decline for the access services AT&T Alascom must purchase from Alaska ILECs in order to provide toll services. While toll prices have declined by approximately 10 cents per MOU over the past ten years, since their inception access prices have changed very little. This demonstrates that AT&T Alascom's price reductions, by going well beyond any changes in access prices, are driven by the need to remain competitive.<sup>12</sup>

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<sup>12</sup>Toll price reductions that go well beyond access price reductions also demonstrate that the toll market is far more competitive than the access, or local exchange, market.

37. Another market demand characteristic – customers' willingness to switch – also points to the inability of any IXC, including AT&T Alascom, to manipulate toll prices. Based on the dramatic decline in AT&T Alascom's market share, it is evident that customers are aware of their ability to choose from a multitude of providers and do so on a regular basis.

38. This analysis of the market data demonstrates that dominant carrier regulation for AT&T Alascom is not appropriate. While the dominant carrier regulation adopted for AT&T Alascom in 1991 had its place during the transition from a monopoly to a fully competitive market, dominant carrier regulation is no longer necessary. It is also a waste of scarce Commission resources because competitive market forces can constrain AT&T Alascom's, and any other competitor's, attempt to set prices higher than competitive levels.

39. Finally, the Commission should give serious consideration to going beyond just removing dominant carrier regulation for AT&T Alascom. The competition that now exists in the intrastate toll market justifies reducing the 30-day tariff notice period for price decreases and new services for *all* IXCs. In the interstate toll market, IXCs can decrease prices and introduce services on one day's notice. So, when AT&T implements an interstate price reduction or new service, AT&T Alascom customers must wait 30 days before they can qualify for the price reduction, or enroll in the new service, for their intrastate usage. The Commission should also eliminate the requirement that IXCs provide cost support for price increases, in cases where the increase does not raise prices above current levels. While the 30-day notice period would remain for price increases above the "price cap,"

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the removal of the cost support requirement is likely to make carrier price reductions steeper and more frequent.<sup>13</sup>

### SUBSIDY SUPPORT FOR THE BUSH

40. As Staff points out, providing toll service to the rural locations of Alaska is both expensive and difficult. (Staff report, p. 36) And, because of its historical position as the first facilities-based IXC to provide toll service throughout the state, the expense associated with providing toll service to Bush locations falls disproportionately on AT&T Alascom. Previously, AT&T Alascom has been able to bear this expense through statewide average toll prices – toll calls between urban locations were priced high enough to recover the “shortfall” generated by providing intrastate toll service to low-density, Category 3 Bush locations. Yet, while toll traffic from low-density, Category 3 areas may be approximately 14 percent of all intrastate toll traffic, toll prices in locations outside of the Bush continue to fall due to the competitive pressures discussed above. Thus, AT&T Alascom finds that the margins on its urban toll calls can no longer be relied upon to support below-cost pricing for Bush traffic. As toll margins are “competed away,” there is no longer any guarantee that margins will remain to cover the shortfall created by Bush traffic. And, as Mr. Vasconi states, this shortfall now amounts to approximately \$7.3 million per year.

41. This situation becomes even more acute if AT&T Alascom is tasked with upgrading its network serving the Bush to permit customer access to the same Internet access capabilities that urban

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<sup>13</sup>Liberalizing the requirements for price increases in this manner will also make IXCs less reliant on the use of long-term promotions. This should ease the concern that Staff has expressed in this regard. (Staff Report, pp. 38-39)

customers enjoy. While AT&T Alascom remains committed to providing the best service possible throughout the state, neither AT&T Alascom, nor any other IXC, is in a position to make significant network investments in ventures that earn no return. As calculated by Mr. Vasconi, the shortfall associated with the investment necessary for AT&T Alascom to provide an Internet access capability to Bush locations amounts to approximately \$1.8 million per year. Investments needed for Internet access can only be made by AT&T Alascom where there exists the opportunity to earn a return on this investment.

42. Clearly, what is needed is an explicit subsidy recovery mechanism that does not disproportionately burden any carrier or customer class, and is not dependent upon price levels in urban toll markets. Indeed, Section 254 of the Act contemplates just such a movement to explicit, competitively-neutral subsidies to support requirements for Universal Service and access to advanced services.<sup>14</sup> The per-minute surcharge on intrastate toll calling to recover AT&T Alascom's losses in providing toll service to the Bush, as proposed by Mr. Vasconi, would satisfy the Act's requirement for an explicit, competitively-neutral subsidy funding mechanism. And, Mr. Vasconi's proposed per-access line charge to pay for the investment needed to provide the Bush with Internet access would similarly satisfy these requirements. While Staff has expressed certain reservations about moving to a toll Universal Service fund (Staff Report, p. 31), a properly-crafted subsidy support mechanism, such as a per-minute or per-access line surcharge, can both promote IXC competition throughout the state

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<sup>14</sup> §254(b)(4) and (5).

while ensuring that customers living in the Bush get the benefits of statewide average toll rates and Internet services.

43. AT&T Alascom supports the maintenance of geographically-averaged retail toll rates, and remains committed to serving all of the Bush areas where it operates today. But, AT&T Alascom cannot remain solely responsible for providing subsidized toll prices and network upgrades in the Bush. AT&T Alascom therefore recommends that the Commission implement a subsidy support mechanism which will result in (a) a financially-sound, competitively-neutral way to continue to support statewide average toll rates, (b) provide Internet services to Bush locations that are on par with the rest of the state.

#### CONCLUSION

44. For the reasons discussed above, AT&T Alascom recommends that:
- The Commission should eliminate the mandatory wholesale tariff structure. At a minimum, the Commission should not contemplate further modifications to the wholesale tariff to require the IXC unbundling proposed by Staff. Instead, as is the case in the interstate toll market, the Commission should rely on carriers to work together, on a business-to-business basis, to develop the wholesale services resellers need.
  - The Commission should eliminate dominant carrier regulation for AT&T Alascom in recognition of the fact that Alaska's intrastate toll market is competitive and that AT&T Alascom can not use market power to maintain toll prices above competitive levels. In addition, the Commission should permit all IXCs to file tariffs for price decreases and new services on one day's notice and permit IXCs to raise prices, on 30-days' notice, without cost support, as long as such price increases do not push prices above where they stand today.
  - The Commission should establish subsidy support mechanisms which will permit AT&T Alascom to recover its shortfall in providing toll service to low-density, Bush locations

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and which will allow AT&T Alascom to upgrade its network in the Bush in order to provide Internet services.

FURTHER YOUR AFFIANT SAITH NAUGHT.

\_\_\_\_\_  
ROBERT E. KARGOLL

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of February 2000.

\_\_\_\_\_  
Notary Public in and for California  
My commission expires: \_\_\_\_\_

N:\SJW\8900\Kargoll Affidavit

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