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

In the Matter of	)	
	)	
Appropriate Framework for Broadband Access to the Internet over Wireline Facilities	)	CC Docket No. 02-33
	)	
Universal Service Obligations of Broadband Providers	)	
	)	
Computer III Further Remand Proceedings: Bell Operating Company Provision of Enhanced Services; 1998 Biennial Regulatory Review – Review of Computer III and ONA Safeguards and Requirements	)	CC Dockets Nos. 95-20, 98-10

REPLY COMMENTS OF THE CITY OF KETCHIKAN D/B/A KETCHIKAN PUBLIC UTILITIES – TELEPHONE DIVISION

Ketchikan Public Utilities (KPU) supports the positions of the Organization for the Promotion and Advancement of Small Telecommunications Companies (" OPASTCO") in its comments filed in this docket. In our reply comments, KPU Telecommunications Division will provide commentary that represents a closer-to-home, Alaskan prospective.

Ketchikan is a small, rural Southeast Alaskan community of approximately 14,000 residents and is located on an island in the inside passage. There are no roads connecting our city with the rest of Alaska or Canada. We are located in the middle of a rain forest and this area receives an average of 160 inches of rain per year. Because of our northern latitude, during six months of the year our daylight hours are considerably less then those in the lower 48. Because of the isolation, weather, and periods of short days, the Internet and high speed Digital Subscriber Line (DSL) access is extremely important to KPU residential subscribers.

Over the last ten years, Ketchikan's economic base has been significantly eroded due to Worldwide fish farming (especially in British Columbia), road-less and environmental policies eliminating our timber industry and a shutdown of the local pulp mill that employed 500 workers. Ketchikan is struggling to find a new economic base. To supplant the dying resource and basic economy, business access to high speed Internet service at

reasonable prices is considered a major economic development necessity for our city. Since there is no cable modem service available, the DSL high speed Internet product is extremely important in attracting new industrial or intellectually based business.

KPU Telephone Division successfully rolled out its DSL product in January, 2002 using the NECA ADSL Tariff. In order to provide affordable DSL in Ketchikan, KPU has had to purchase Internet backbone bandwidth from Canada so that the DSL end product can be priced at a level our subscribers can afford. Although the Commission is not concerned with the cost of Internet backbone bandwidth in this proceeding, there has to be recognition of the fact that the two services, DSL ILEC provided transport and Internet backbone bandwidth are intrinsically linked to the extent that the end user customer perceives it as a single service. KPU urges the Commission to consider the fact that rural Alaska is extremely bandwidth isolated and that Internet backbone bandwidth costs are up to ten times higher for Alaskan ISPs than those paid by most lower 48 ISP companies. As an example, KPU currently pays over seven times the lower 48 cost per delivered T1 of Internet backbone bandwidth. As previously mentioned, since the cost of ISP bandwidth is added to the cost of ILEC DSL transport service to provide the end product, the two individual services here in Alaska have to be viewed as one. Most Alaskan subscribers are unwilling to pay more than $50 to $55 for basic entry level (320/128 kbps) DSL. This means that in order to provide DSL at affordable (and saleable) rates, Alaskan rural ILECS resellers who provide combined DSL transport and ISP service are pricing the combined services with little or no margin even with the current pooling assistance. As market studies have shown, the price of DSL Internet Service is highly elastic and current prices of DSL/IP combined service in Alaska rural areas is at the highest limit of what subscribers are willing to pay for this service.

The changes to the regulatory framework for wireline broadband Internet access that the Commission is proposing will undoubtedly cause the death of future investment in broadband in rural Alaska. For most, if not all rural Alaskan ILECs, the deployment of DSL wireline broadband Internet access service will not be available without the NECA pooling arrangement. As all rural Alaskan ILECs know, the pooling process is vital to the rural carriers' ability to provide affordable DSL service. If DSL-based services were excluded from pooling, many rural consumers of advanced wireline services would experience significant rate increases that in turn will mean a steep drop in subscriber-ship and a resulting death spiral of the DSL product. As a result of DSL deregulation or reclassification that in effect would eliminate pooling benefits, rural Alaskan ILECs would become unable to recover the considerable costs of the deployment and on going maintenance and services will likely cease. The resulting situation would be contrary to the goals of Congress and the Commission.

In the 1996 Telecom Act, Congress sought to ensure that consumers in rural areas receive access to advanced telecommunications and information services that are reasonably priced and comparable to those provided in urban areas. The Commission should continue to permit all loop-related costs to be allocated entirely to voice telecommunications services.

Additionally, if the Commission determines that wireline broadband Internet
access service is an " information service," it must ensure that any perceived deregulatory benefits which may potentially advantage urban areas are not offset by new regulations from the states. Given the predominantly interstate nature of Internet access services, state regulations should be actively avoided. Notwithstanding, when rural carriers are able to overcome obstacles and make broadband Internet access service available, consumer " take rates" tend to be lower than in urban areas. In order to become widespread, advanced services must be attractive to consumers. Commission efforts to secure access to affordable broadband content such as video for delivery via advanced services would help rural ILECs make the business case necessary to justify the considerable expenses associated with deployment. As our telecom business becomes unstable from the seeming uneven regulatory playing field being fostered by the Commission (and states), we will need to supplant dwindling telecom revenues with new services.

The 1996 Act provided the Commission with authority to require non wireline providers of interstate telecommunications to contribute to the universal service fund. To help preserve this goal, the Commission has previously recognized that facilities-based Internet access providers furnish telecommunications to themselves. Thus, the Commission has the legal authority to require facilities based broadband Internet access providers to contribute. Moreover, the public interest demands that the Commission exercise its authority over these providers. Internet substitution such as virtual private networks (VPNs) for traditional interstate telecommunications services is growing at a rapid pace (especially in Alaska), and the majority of this traffic could be transitioned such that the providers would not be required to contribute to the fund under current regulations. Even in Alaska, we are beginning to see Voice Over Internet Protocol (VOIP) being used to lower costs for private and public business by avoiding traditional access mechanisms. By broadening the base of contributors to include all facilities-based broadband Internet access providers, the Commission would ensure a sustainable contribution base into the future.

We assume that the Commission will consider the fact that cable companies are now providing telephony services over their cable facilities and the technology for them to provide long distance services using VOIP is maturing. This transition, such as cable companies ultimately taking telephony customers off the PSTN and providing VOIP long distance service via private networks, will

ultimately endanger universal service in high cost areas. In Alaska, the monopoly cable company, General Communications Corporation (GCI) is contemplating the provision of cable telephony (unfettered by state or federal regulation) along with cable modem service within the four largest cities in Alaska. We assume that GCI's proposed long distance service over cable will be VOIP based. If cable companies, who provide telephony, are allowed to obtain ETC status, then there has to be provisions for the same facilities based, urban cable telephony companies to contribute to universal service to support rural high cost areas.

Finally, Ketchikan Public Utilities believes that equitable universal service contributions from all facilities-based broadband Internet access providers is necessary to comply with Section 254(d) of the 1996 Telecom Act, as well as with the Commission's on going attempts to meet the principle of competitive and technological neutrality. Requiring only wireline telecommunications carriers to contribute to the pooling on the basis of revenues earned from broadband transmission service is neither equitable, nondiscriminatory, nor competitively neutral. Customers should not be driven to one broadband provider or platform over another based upon a biased contribution policy.

Respectfully submitted this 1st day of July, 2002 at Ketchikan, Alaska

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