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January 22, 2003

VIA ELECTRONIC FILING

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: UNE Triennial Review, CC Docket Nos. 01-338, 96-98, 98-147;
Notice of *Ex Parte* Communications

Dear Ms. Dortch:

Today I had an *ex parte* meeting on behalf of Alaska Communications Systems Group, Inc., and its operating subsidiaries, ACS of Alaska, Inc., ACS of Anchorage, Inc., ACS of Fairbanks, Inc., and ACS of the Northland, Inc. (collectively "ACS"), concerning the above-captioned proceeding. I met with FCC Chief of Staff Marsha MacBride. The substance of our discussion is set forth in the enclosed slides and in ACS's January 16, 2003 *ex parte* letter filed in this proceeding on January 21st. Briefly, ACS is urging the Commission to amend its Part 51 rules and afford meaningful relief from unbundling requirements in Alaska, where competition already is fully developed. Such relief would be consistent with the D.C. Circuit's mandate in *USTA v. FCC* to conduct a more granular analysis of a competitor's "impairment" and eliminate unbundling obligations when they are no longer justified under Section 251(d)(2).[1] Please call me if you have any questions regarding this submission.

Respectfully submitted,

Karen Brinkmann

Enclosure

cc: Marsha J. MacBride, Chief of Staff
Office of the Chairman

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[1] *See USTA v. FCC*, 290 F.3d 415 (D.C. Cir. 2002).

ACS LEC Impact of Competition

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Anchorage Actual Results(2001)

Market	Revenue (millions)	Net Income (millions)	Total Lines	UNE Wholesale Lines	ACS Market Share (6/30/02)	Return on Rate Base With Directory	Return on Rate Base Without Directory
Anchorage - Actual	$89.8	$3.2	184,767	68,068	50%	8.0%	2.0%

Fairbanks and Juneau Results Pro-Forma for a 40% Market Share Loss:

Market	Revenue (millions)	Net Income (millions)	Total Lines			Return on Rate Base With Directory	Return on Rate Base Without Directory
Fairbanks – Pro-Forma	$25.5	$1.4	44,748		60% (assumption)*	5.1%	3.3%
Juneau – Pro Forma	$13.9	$(.6)	33,309		60% (assumption)*	(1.0)%	(3.1)%

* *ACS – Fairbanks actual market share lost was 17% in first nine months of competition. Opposition of General Communication, Inc., to Petition for Declaratory Ruling of ACS of Fairbanks, Inc. CC Docket 96-45 (filed Sept. 3, 2002)*

Source: Company Annual Regulatory for financial results. Access lines from public filings. Adjusted to reflect a recent depreciation order, and cost of financing that is accounted for at ACS parent company. Return on Rate Base = Net Income/Net Plant. Juneau = ACS of Alaska.

Comparison of Returns

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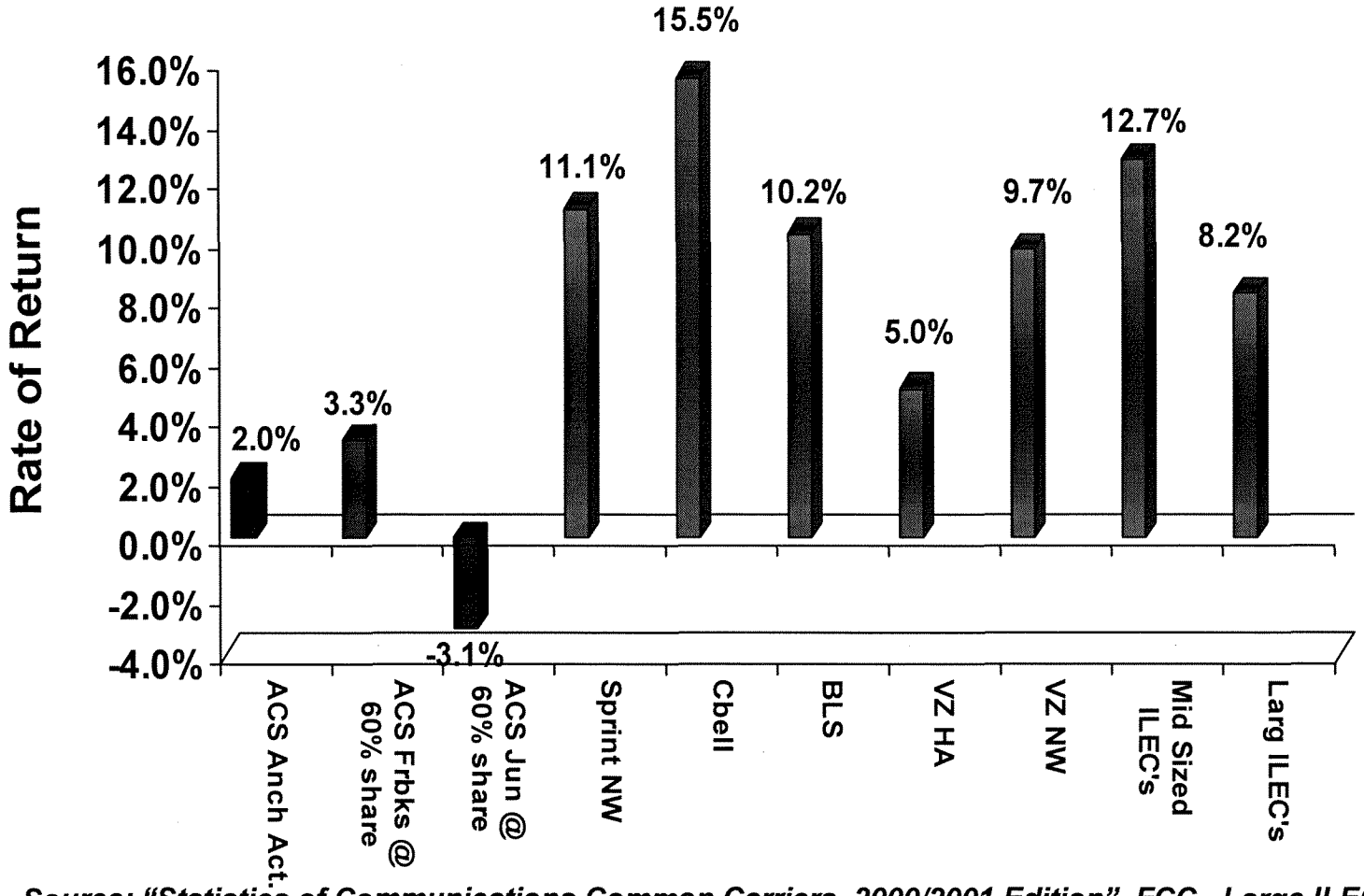
ACS Competitive Markets are Well Below The Industry



Source: "Statistics of Communications Common Carriers, 2000/2001 Edition", FCC. Large ILEC's include Qwest, Ameritech, Pacbell. Mid Sized ILEC's include Sprint, Alltel, Citizens and Cincinnati Bell. Rate of return = net income/net plant.

ACS of Anchorage

Revenues Have Declined as Competition Increased

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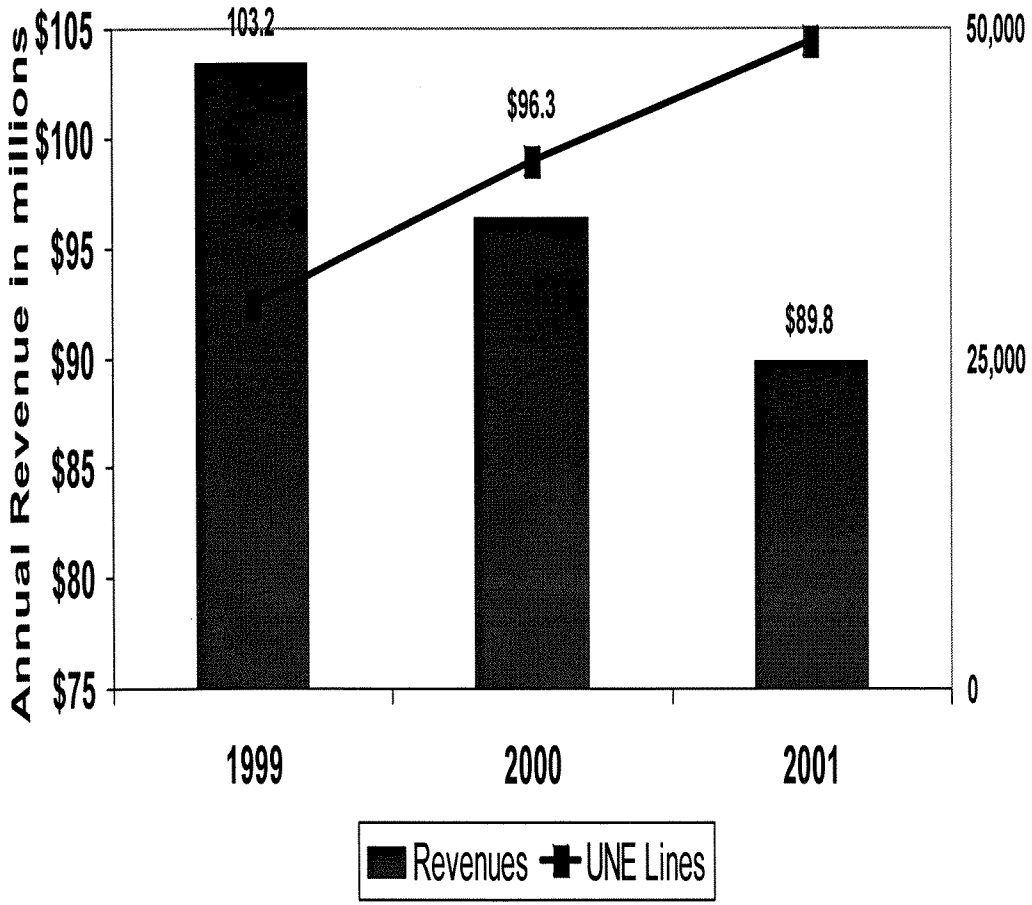

Recent Competitive Line Losses:

Lines	6/30/02	Share
ACS Retail	101,901	50.0%
GCI UNE	57,361	28.2
GCI Wholesale	7,395	3.6
GCI Bypass(Est.)	24,171	11.9
ATT Wholesale	12,974	6.3
Total	**203,802**	**100%**

GCI Total 43.7%

Source: Annual Report to RCA – Regulated Revenues. GCI Bypass Lines estimated based on public filings.

UNE Line = Line that ACS leases to a competitor for a fixed monthly fee.

Wholesale Line = line that ACS resells to a competitor at a negotiated discount.

ACS Anchorage – Impact of Competition:

Reduced Costs and Increased Efficiency

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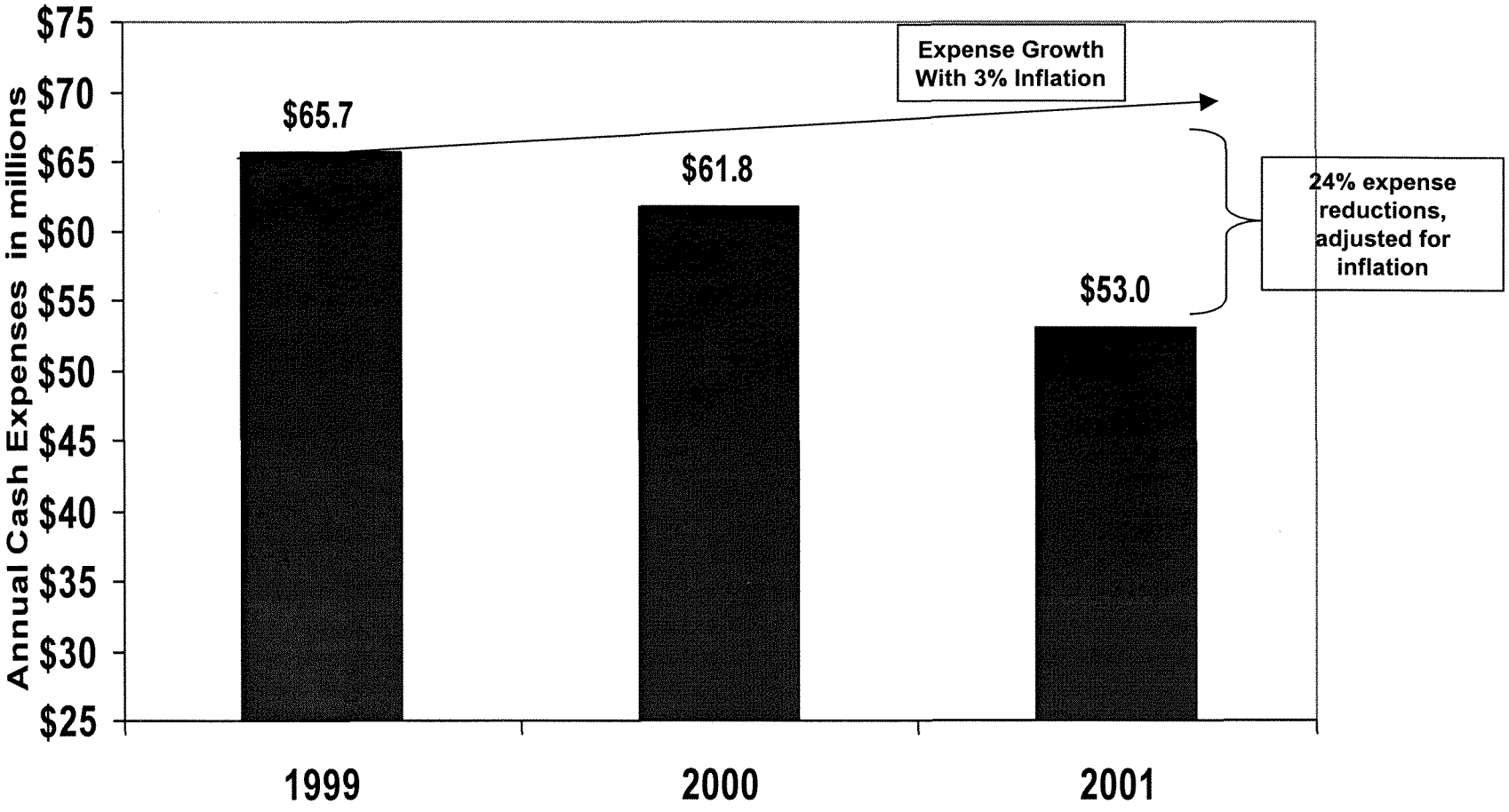

ACS Anchorage is Very Efficient

Cash Expenses Per Line vs. Industry
2001

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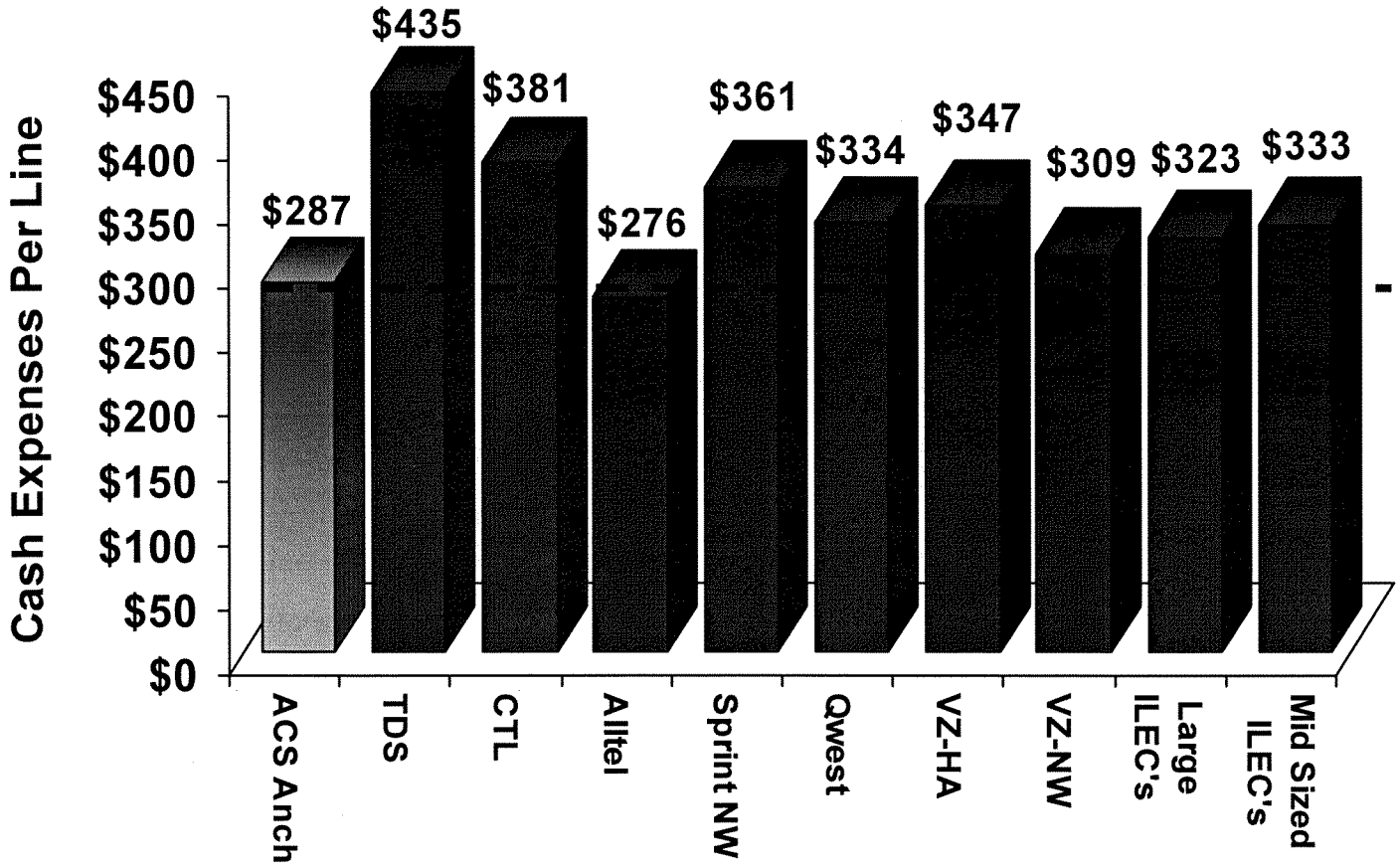

ACS Anchorage = 2001 Results. Industry = All reporting LEC's to FCC.
Source: Form M's, Company annual reports, "Statistics of Communications Common Carriers, 2000/2001 Edition", FCC

Impact of Competition Will Be More Severe in Juneau and Fairbanks

Annual Revenue Per Line 2001

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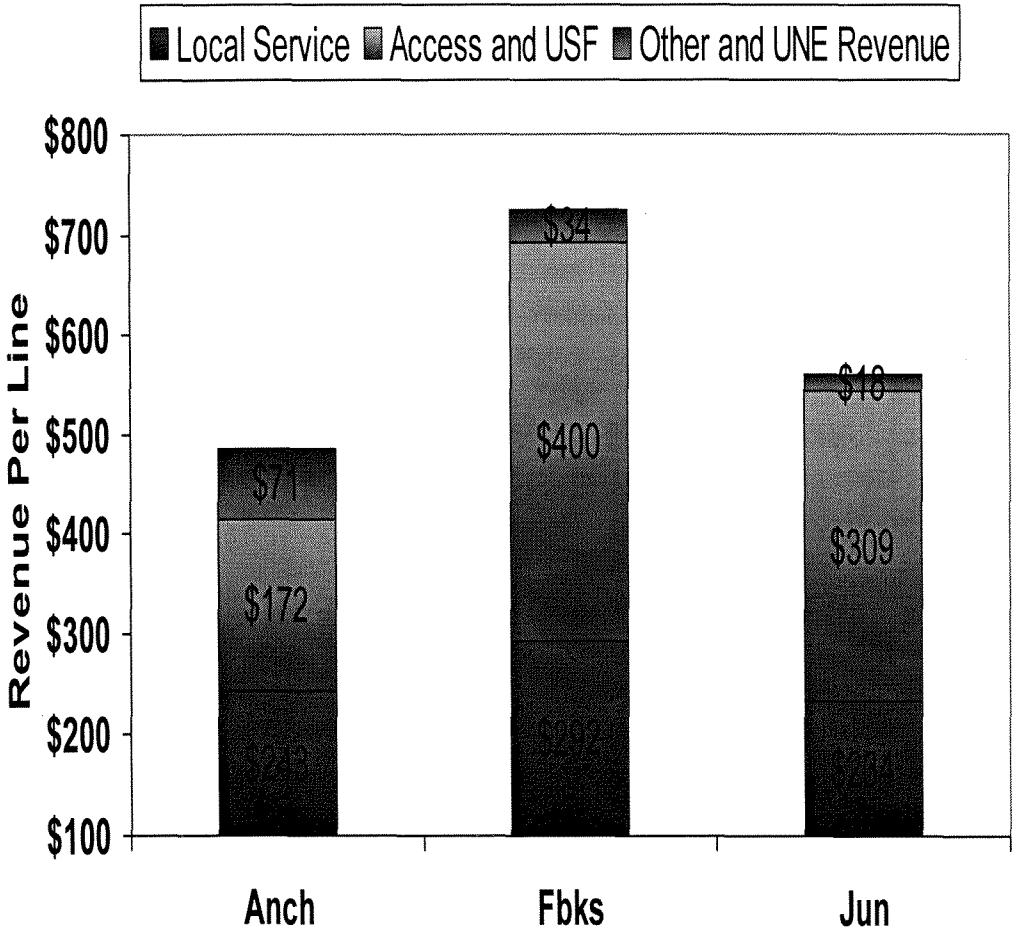

Fairbanks and Juneau have over twice the amount of Access and USF revenue per line than Anchorage. As ACS losses a retail line to UNE competition, the Access and USF revenue is largely eliminated. The financial impact of competition in these smaller markets will be much more severe than has been experienced in Anchorage.

Per Line Revenue Losses are Significant

Annual Revenue Impact Per line - 2001

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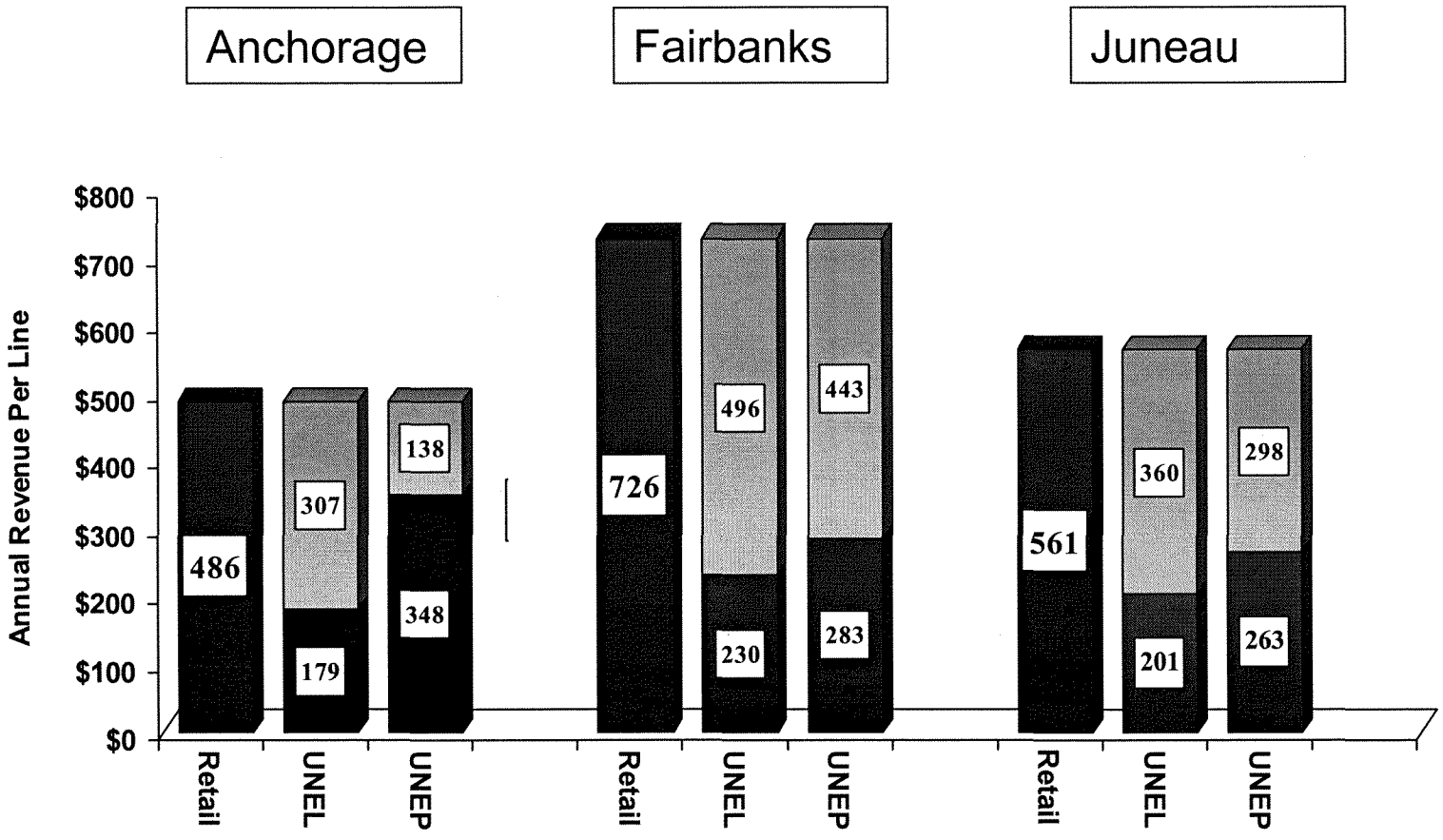

Grey areas represent lost revenue as a line moves from retail to UNEL and UNEP

Total Competitive Markets are Experiencing Rapid Declines in Financial Returns

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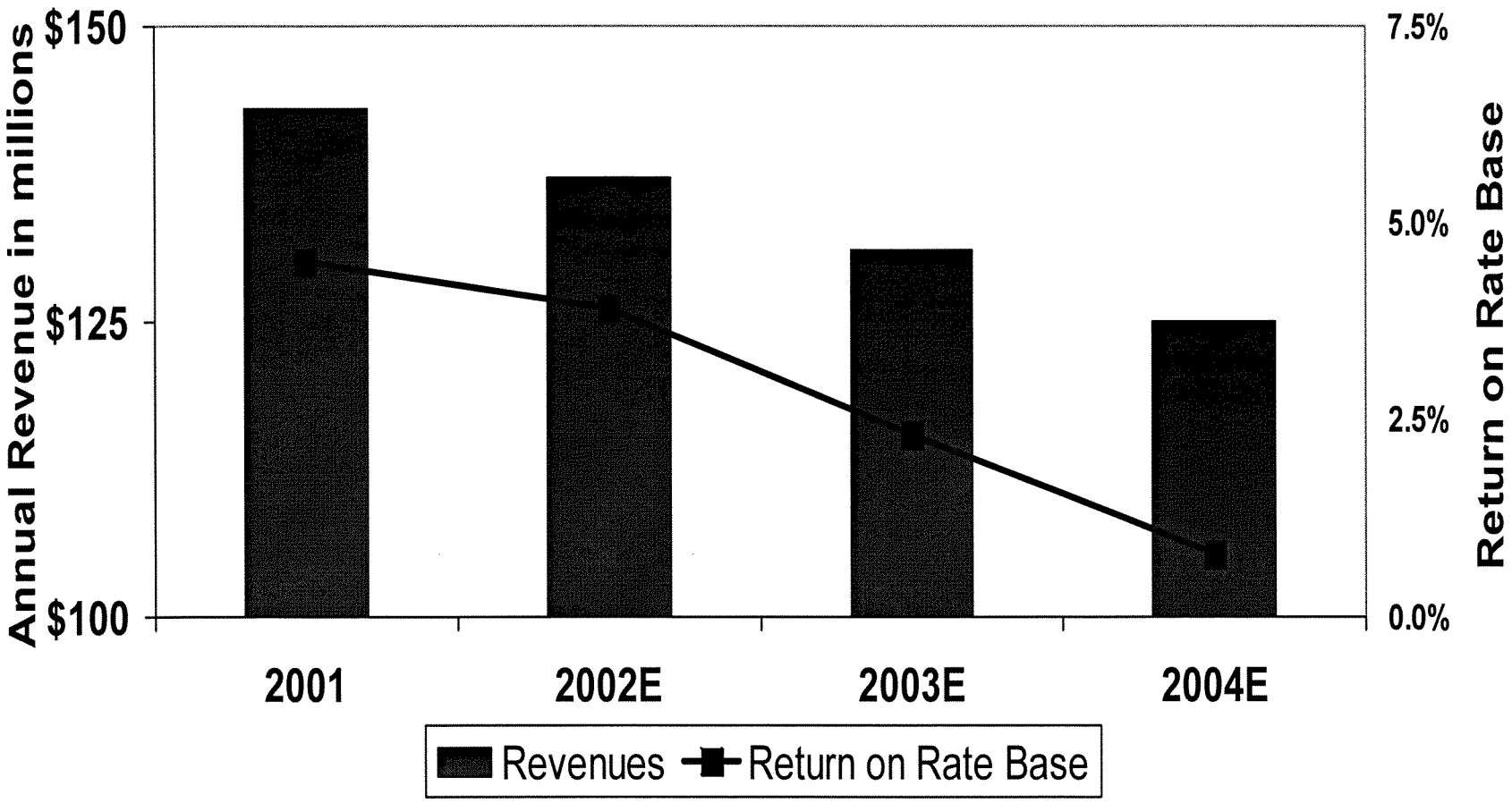

Above results are for ACS Anchorage, Fairbanks and Juneau markets.

ACS Returns Cannot Attract Capital to Fund Losses

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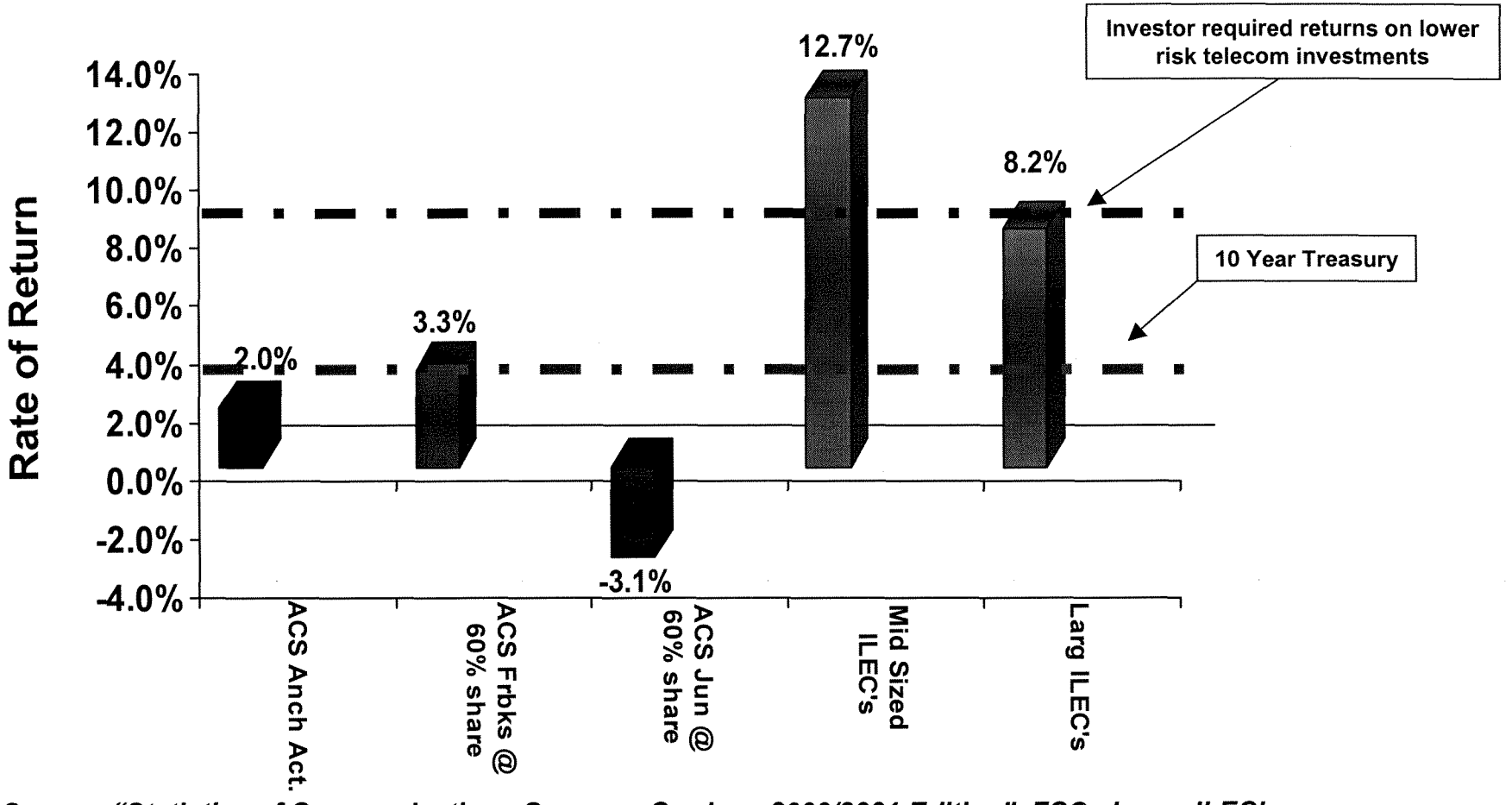

Source: "Statistics of Communications Common Carriers, 2000/2001 Edition", FCC. Large ILEC's include Qwest, Ameritech, Pacbell. Mid Sized ILEC's include Sprint, Alltel, Citizens and Cincinnati Bell. Rate of return = net income/net plant.

Competition in Alaska Local Markets
Implications for the Future

ACS
Alaska Communications Systems

- ACS was formed by acquiring predecessor organizations that were inefficient.
  - Since then ACS has reduced cost structure and is very efficient relative to other operators.
    - Very remarkable given Alaskan operating environment.

- Going forward ACS will not be able to avoid enough costs to offset the severe revenue losses that will be experienced in Juneau and Fairbanks.

- Implications for the financial health of the organization have largely been ignored by the regulators.
  - More pressing matters at the national level.
  - State policies favor the competitor.

- Deterioration of financial performance of ACS must be addressed:
  - Access to capital will be terminated.
  - ACS will have to stop investing in the network, perpetuating a cycle of deteriorating service and worsening financial results.