

**Before the**

**United States Senate  
Committee on Commerce, Science and Transportation  
Communications Subcommittee**

**Testimony of Dana L. Tindall  
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General Communication, Inc.**

**In the matter of  
Hearing on the Current Status and Future  
of the Universal Service Fund**

**April 2, 2003**

## **Introduction**

Good morning. My name is Dana Tindall, and I am the Senior Vice President, Legal, Regulatory and Government Affairs for General Communication, Inc. (“GCI”). I appreciate this opportunity to appear before the Senate Commerce Committee and the Communications Subcommittee to share GCI’s perspective on how to ensure the sustainability of the universal service fund in the face of significant growth in demand and reduction in the contribution base.

In Alaska, the home of the most competitive markets in the country, we are at the forefront of these national issues and offer our experiences as a window into the near future for other developing competitive markets throughout the country. GCI believes that the universal service fund is an essential component of national telecommunications policy, and the focus should remain on improving service to consumers, not on particular carriers. GCI also believes that competition will further the goals of universal service, by enhancing efficiency and encouraging the development and deployment of new services in high-cost areas. As is now evident, without competition to discipline carriers and incent them to provide service in a cost-effective manner, the universal service fund cost structure will grow so large that it may become impossible to sustain.

Today, I will share with you GCI’s experiences as a competitive eligible telecommunications carrier (“CETC”) that serves all customers—residential and business—competes to serve all lines, especially primary lines, and provides widespread advanced broadband services. Our experiences suggest a roadmap for national policy on universal service and shows that competition and universal service go hand-in-hand in delivering the maximum benefit for rural consumers. Indeed, competition is the most effective tool policymakers have to

ensure that universal service support flows where it is truly needed and in the appropriate amount, regardless of the size of the market. It is a real mistake to try to determine in advance whether a particular market is “too small” for competition. Incumbents will always say their markets are “too small,” ignoring that consumers win when they have a choice of providers. Universal services at affordable rates that are reasonably comparable in rural areas to urban rates are best and most efficiently preserved and enhanced through competition, not monopoly.

This principle equally applies to the administration of the universal service fund itself. Demands on the high cost fund have grown significantly over the past several years, as incumbents’ expectation for full recovery of embedded cost plus a rate of return has gone virtually unchecked. At the same time, the contribution pool, from which this growing demand must be met, has diminished. GCI proposes the following recommendations for a carrier-neutral universal service program that is focused on protecting and enhancing service in high-cost areas in a cost-effective manner:

***Curbing Demand on the High Cost Fund***

1. Restrict support to the customer’s primary line.
2. Cap the per-line support for a study area upon the entrant of a competitor.
3. Make support truly portable.
4. Step down per line subsidies when a market can be served at a lower cost.
5. Consolidate study areas within a state for USF support purposes.
6. Define “affordable rates.”

***Expanding the USF Contribution Base***

1. Expand the contribution base beyond telecommunications providers.
2. Assess a connections-based fee.

These recommendations offer real solutions to the issues facing the fund. Disadvantaging competitors or prohibiting competitive entry is not a real solution to universal service fund issues, and would only deny consumers in rural America the quantifiable benefits of competition.

### **GCI's Service Offerings**

GCI provides competitive telecommunications and cable service to more than 200 communities in Alaska, and over the past five years alone, GCI has invested over \$365 million in a facilities-based network throughout Alaska. In 1982, we first entered the Alaska market as a long distance provider. Today, GCI has the largest market share of any long distance provider in Alaska, even though we are prohibited by federal regulation from building our own facilities to provide long distance service to some 150 bush villages.<sup>1</sup> And consumers have benefited from competition. In 1983, 83.8 percent of Alaskan homes had telephones, the second lowest rate in the country. With the introduction of long distance competition, service quality and availability began to increase as rates decreased. By March of 2002, telephone penetration had reached 96.4 percent, and in all but one year since 1996, Alaska's rate of household penetration has exceeded the national average. In addition, before the introduction of intrastate long distance competition in 1991, a ten-minute call from Anchorage to Juneau cost \$9.25. Now, as a result of competition, the same call would cost \$1.40. The Alaska experience demonstrates that universal service and competition are an essential partnership.

GCI began buying cable properties in 1996. Today, our cable network passes 95 percent of the homes in Alaska. We offer broadband cable modem service to approximately 90 percent of Alaskan homes, and we provide 62 percent of Alaska's dial-up Internet access. Alaska is the

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<sup>1</sup> See Policies Governing the Ownership and Operation of Domestic Satellite Earth Stations in the Bush Communities in Alaska, Tentative Decision, 92 FCC 2d 736 (1982); Final Decision, 96 FCC 2d 522 (1984).

second most wired state in the country,<sup>2</sup> and Alaskans use the Internet more than any other state in the Nation on a per capita basis.<sup>3</sup> These vital connections are not only available in our cities. GCI is working to deliver high-speed broadband Internet services throughout the smallest villages of Alaska, and we now offer high-speed wireless Internet at affordable prices to 12 villages and through DSL to five more villages,<sup>4</sup> located in some of the most rural parts of Alaska. For example: Akutan is a village located on Akutan Island in the eastern Aleutians and has a population of 713. Fifty percent of households in Akutan have subscribed to our high-speed Internet offering. We are scheduled to offer high speed Internet service to every village and community where we have a point of presence by the end of 2004. In both urban and rural areas, GCI is delivering on the advanced services deployment that Congress expected when it passed the Telecommunications Act of 1996.

GCI entered the competitive local exchange business in Anchorage in 1997, and now serves over 40 percent of Anchorage residential and business customers combined. Since that time, consumers in Anchorage have saved approximately \$15 million on local service rates. But GCI was blocked for over four years from bringing these same benefits to Alaska's second and third largest cities, Fairbanks and Juneau, by incumbent carrier claims that these areas were "too small" to permit competition. They were wrong. After an extensive and costly battle to terminate rural exemptions that prevented GCI from leasing incumbent local exchange carrier ("ILEC") unbundled loops to connect to GCI's switches, we began offering service to Fairbanks

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<sup>2</sup> U.S. Department of Commerce: Economics and Statistics Administration and National Telecommunications and Information Administration, "Falling Through the Net: Toward Digital Inclusion," Table 1-B, Percent of Households with Internet Access, By State: 2000 (Oct. 2000) at 22.

<sup>3</sup> U.S. Department of Commerce: Economics and Statistics Administration and National Telecommunications and Information Administration, "A Nation Online: How Americans Are Expanding their Use of the Internet," Table 1-1, Internet Use by Percent of State Population (Feb. 2002) at 8.

<sup>4</sup> These services are offered in conjunction with the local exchange carrier serving the village.

in 2001 and to Juneau in 2002. Customers have responded positively to GCI's entry in these markets, and GCI now serves over 21 percent of the Fairbanks market and over 14 percent of the Juneau market. As a designated eligible telecommunications carrier ("ETC"), GCI receives universal service support based on the incumbent's costs. Because GCI receives support on a per-line basis, rather than an overall cost basis like the incumbent, GCI funds its up-front investments of undertaking to serve the market. In 2003, GCI is projected to receive \$473,229 in high cost support, and the incumbent is projected to receive over \$27 million in high cost support.<sup>5</sup> Despite the incumbent's claims that competition will bring "financial disaster,"<sup>6</sup> its local telephone revenues continue to grow.<sup>7</sup>

GCI has installed its own switch and fiber transport facilities in each of the communities it serves. GCI serves the majority of its local residential and business customers using UNE loops. GCI is proud of its distinction as serving the most competitive markets in the Nation, making Alaska a leader in the telecommunications revolution.

Although GCI can deliver its products using UNEs, the company is also making substantial investments in its own loop facilities to free us and our customers to the extent possible from the ILEC monopoly in these markets. GCI has placed great emphasis on the next stage of facilities-based competition, cable telephony deployment. GCI's engineers have designed an industry standard platform to connect the cable system to our local telephone network. We plan to begin converting customers to our cable telephony network at a rate of up

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<sup>5</sup> Universal Service Administrative Company, "Federal Universal Service Support Mechanisms Fund Size Projections for the Second Quarter 2003" (Jan. 31, 2003) (projections based on 2Q 2003 data provided in Appendix HC01).

<sup>6</sup> Alaska Communications Systems Group, Inc., Form 10-K, filed for the Year ended December 31, 2002 at 33 (summarizing local telephone operating revenues for 2000, 2001, and 2002).

<sup>7</sup> Letter from Karen Brinkmann, Latham & Watkins, LLP, Counsel for ACS, to Secretary, Federal Communications Commission, CC Docket Nos. 01-338, 96-98, 98-147 (filed Jan. 6, 2003) at 11.

to 1,000 homes per month starting next year. We have set a goal to convert all local customers that can be reached via the cable telephony network, and we have embarked on a plan to reach that goal.

Stated simply, competition delivers. It has resulted in the deployment of improved technologies, the introduction of new service offerings, and the delivery of lower rates to consumers, without any credible threat to the core supported services. Maintaining universal service is a priority of the highest order, and increasing demands on the fund is an issue that must be squarely addressed. We believe that competition is essential to achieving the goals of the universal service fund, which cannot be sustained if permitted to continue to grow without any discipline on costs. Every carrier must strive to be cost efficient, which is simply not likely unless demands for full, perpetual recovery of self-reported costs are not kept in check by competition.

#### **An Assessment of the Major Components of the Universal Service Fund**

Incumbents and competitors alike agree that the increasing demand on USF over the last several years is an important issue that must be addressed to ensure that the fund is sustainable over time. Contrary to the claims of some, however, payment of universal service to competitive ETCs is not the primary, or even secondary, source of the increase in demand. This simplistic view fails to see the importance of competition for protecting the universal service fund. GCI urges the members of the committee to look at these claims with a critical eye.

The two major components of the universal service fund are High Cost Support and the Schools and Libraries Program. High Cost Support constitutes over 52 percent of the total fund, while the Schools and Libraries Program constitutes over 35 percent (with the Rural Health Care

Program constituting less than 1 percent).<sup>8</sup> In the case of High Cost Support, guaranteed recovery of ILEC costs plus a rate of return has resulted in ever skyrocketing demand; in contrast, competitive bidding and a cap on the Schools and Libraries fund have imposed disciplines on spending for this program, while ensuring delivery of a quality product. The comparison of these two programs is instructive for considering universal service fund reform.

### ***High Cost Support***

In 1999, incumbents received \$1.7 billion in High Cost Support. Just four years later, incumbents are projected to receive \$3.2 billion, almost twice that amount. At the same time, competitive ETCs are projected to receive only \$106.5 million in High Cost Support this year, *less than four percent of all High Cost Support. It is not the entry of competitors that has produced any profound increase on the fund, but rather, the fund has expanded to accommodate guaranteed revenue requirements including a rate of return for incumbent carriers as described below.*

The largest increase in High Cost Support over the last four years resulted from the removal of implicit subsidies from access charges, to be recovered from the fund. In two proceedings, the FCC identified what it considered to be implicit subsidies, first in price cap access charges and then in rate-of-return access charges. Moving these subsidies to USF made them explicit, rather than implicit, as Congress directed in Section 254(e), but it also resulted in significant increases in high cost support. The FCC created two new funds to make these subsidies explicit. Subsidies have been made available to price cap carriers since 2000 through the Interstate Access Support Fund, and the projected 2003 demand is \$650 million, the full capped amount. Similar subsidies have been made available to rate-of-return carriers through the

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<sup>8</sup> The Low-Income Fund constitutes the balance of the Fund (11.7 percent).

Interstate Common Line Support Fund, and the projected 2003 demand is \$383 million. These access charge reform mechanisms constitute over 30 percent of the total high cost fund amount. And competitive carriers receive *less than four percent* of this support.

At the same time, other high cost fund components have increased steadily over the past several years. From 1999 to 2003, High-Cost Loop Support has grown by 22 percent, Long Term Support has grown by almost 7 percent, Local Switching Support has grown by 12 percent, and since 2000, High-Cost Model Support has grown by 6 percent. And because all support, other than High-Cost Model Support, is calculated based on the ILEC's embedded costs plus a rate of return, the continued increase in fund demand—which far outpaces the rate of inflation—demonstrates that guaranteed cost recovery to incumbents has not provided any incentive to reduce costs. To the contrary, for rate-of-return carriers, the incentive is just the opposite, to maximize cost as a means of maximizing guaranteed return. Higher costs yield higher dollar returns and more subsidies.

It is important to realize that, with respect to the four types of universal service support received by rural telephone companies regulated under rate-of-return regulation, the incumbent receives the same amount of universal service support for a given service territory no matter how many customers it serves in that area. *Competitive entry has no impact on the incumbent's total level of support, even when the competitor takes customers using all of the competitor's own facilities.* High cost support is paid to incumbent rural areas based on embedded costs. Because ILECs are paid based on total costs, *not based on the number of lines served*, the subsidy paid to the ILEC does not change even when it loses customers to the competitor. Therefore, when GCI serves a customer with an unbundled loop leased from the ILEC, it not only receives the lease rate from GCI but also continues to receive the same amount of USF support that it received

when it served the customer. In this way, USF pays the incumbent an additional amount beyond the lease rates paid by the CLEC for the ILEC to sit idle. Competitors receive no such payment. If the fund is skewed, it is skewed in favor of incumbents, which have no incentive to reduce costs when even the loss of customers does not affect its universal service payments.

***Schools and Libraries and Rural Health Care Programs***

In contrast, cost reduction incentives have been employed in the Schools and Libraries and Rural Health Care Programs. In our opinion, these programs have been largely successful for three reasons. First, the programs essentially work as a voucher to the eligible school, library, or rural health care provider to use with the provider of its choice. Providing support directly to the end user, rather than to the service provider, is inherently more efficient than delivering support to service providers. Second, the school, library, or rural health care provider must have a defined need and plan for the services to ensure that the support is directed to meet the identified service needs. Finally, competitive bidding reduces the cost of individual contracts. Schools, libraries, and rural health care providers are required to select the most cost-effective bidder, with price being the most important criteria in making the assessment. GCI began participating in these programs virtually at their inception. GCI has invested in technology that reduced the cost per unit of bandwidth delivered over satellite by over 80 percent since 1999. As compared to the high cost fund, per customer subsidies from the fund are actually declining for the same services, increasing the utility and reach of fund disbursements.

Moreover, these funds produce identifiable results. GCI delivers high-speed Internet to 295 schools across all reaches of the state, providing broadband Internet access to 80,000 school-age children. In 1997, only two of Alaska's 53 school districts had access to the Internet. Today, 99 percent of Alaska's schools have Internet access. GCI also provides services to

schools and libraries on a more limited scope to Arizona, Montana, and New Mexico. In addition, GCI is providing broadband services to over 90 rural health clinics, bandwidth that brings technological diagnostic advances to some of the most isolated villages in America.<sup>9</sup>

We understand there have been reported instances of fund misuse and misdealing; however, we expect that any such abuses can be reduced or eliminated through tighter audit and control procedures. In addition, to the extent that recent shifts in funding away from rural areas have been identified, such shifts can be corrected as needed by adjusting the criteria for discounts. Based on our experiences in Alaska, however, these programs are working well, providing crucial services to the areas intended when the programs were initially conceived.

The comparison of these funds demonstrates that universal service and competition go hand in hand. Competition ensures that services are delivered to consumers in the most efficient manner at the lowest price. In those cases when the lowest unsubsidized price is still too high to keep rates affordable and reasonably comparable between urban and rural areas, universal service—if constructed correctly—should provide targeted subsidies to bring those prices down to the identified affordable and reasonably comparable levels. Increasing demands on the fund is an issue that must be squarely addressed, and competition is a key element of the solution for preserving universal service in the long term. Experience tells us that the absence of competition will only ensure that there is no discipline on ILEC costs or their demands for full, perpetual recovery of those self-reported costs.

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<sup>9</sup> GCI is also serving five regional hospitals and two Veterans Administration medical centers.

## Real Solutions

### *Curbing High Cost Fund Demand*

This overview of where the real growth in the USF fund lies underscores that USF policies simply have not kept pace with the development of competition. Competitive entry should discipline costs and encourage carrier efficiency. However, under current policies, ILECs can avoid the realities and delay the benefits of a competitive market by recovering their full embedded costs through the USF fund. With this continued dependence on guaranteed recovery and returns, ILECs have criticized the presence of competition without offering any real solutions to the issues facing universal service.<sup>10</sup> While solutions may not be simple, it is clear that adopting the competitively skewed framework advocated by some will not discipline incumbent costs and will deny the promise of competition to many rural areas of the country.

Based on these principles developed through our experience as a facilities-based competitor, GCI offers the following recommendations to curb demand on the High Cost Fund:

1. ***Restrict support to the customer's primary line.*** The Universal Service Joint Board recommended that support be available for a single connection per principal residence, but the FCC did not adopt it and deferred consideration of the proposal.<sup>11</sup> GCI recognizes that there are practical limitations in implementing this proposal in a competitively neutral manner that must be resolved and urges industry collaboration to develop a workable solution. Successful implementation would eliminate additional support amounts to individual households: support

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<sup>10</sup> See Attachment 1, "Competitively Neutral Universal Service Policies Must Be Preserved."

<sup>11</sup> See *Federal-State Joint Board on Universal Service, First Report and Order*, 12 FCC Rcd 8776, 8829-30 (1997); *Federal-State Joint Board on Universal Service, Recommended Decision*, 12 FCC Rcd 87, 132-33 (1996).

would be available only for a single designated connection, without any bias toward any particular technology or carrier.

2. **Cap the per-line support for a study area for both the ILEC and the CETC upon the entrant of a competitor.** The Rural Task Force, with the agreement of the rural carrier community, proposed such a cap to the FCC, but it was not adopted.<sup>12</sup> The ability to discipline costs and efficiency through competition should not be impeded by perpetual guaranteed cost recovery through USF.

3. **Make support truly portable.** Today, incumbents do not lose any USF support upon competitive entry. Because support to incumbents is paid based on total costs and not based on the number of lines served, the subsidy paid to an incumbent does not change even when that incumbent loses customers to a competitive carrier. If the customer's chosen carrier receives support for providing a line, another provider should not also receive support for the same line. As long as ILECs are permitted to receive support where they have no customer, they will not experience any incentives to control cost, and the demand for USF support will continue to spiral upwards.

4. **Step down per line subsidies.** All providers, especially those that are inefficient (or less efficient), should be subject to market discipline, even if subsidies are necessary to maintain affordable rates. If an ETC can serve the market at a lower price, per line support to that market should be decreased accordingly.

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<sup>12</sup> *Federal-State Joint Board on Universal Service, Recommended Decision*, 16 FCC Rcd 6153, 6161 (Jt Bd 2000); *Federal-State Joint Board on Universal Service, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256*, 16 FCC Rcd 11244, 11325-27 (2001), recon. pending.

5. **Consolidate study areas within a state for USF support purposes.** Today, carriers serving “rural” study areas that have non-rural characteristics and density receive support based on embedded costs, even when that carrier (or commonly owned carrier) also serves non-rural study areas. Companies who bought separate properties are able to game the system by maintaining multiple study areas in the same state under common ownership, even though they benefit from their statewide economies of scale. Universal service support should be determined for these carriers based on statewide operations and line counts.

6. **“Affordable rates” must be defined.** USF should not subsidize comparably lower rates unless the provider can demonstrate that rates must be kept at that level in order to be affordable and reasonably comparable.

These solutions are each aimed at disciplining and reducing incumbent costs—the costs on which high cost support is calculated—and thus, directly address the threat of uncontrolled escalation.

#### ***Expanding the USF Contribution Base***

Addressing fund demand only reaches one side of the issue. The other issue to be addressed is the declining contribution base. There has been considerable debate before the FCC concerning changing the manner in which carrier contributions to USF are assessed. On this matter, GCI offers the following proposals to ensure that an appropriately sized USF is fully funded:

1. **Expand the contribution base.** The contribution base should be expanded to ensure that all beneficiaries of the network contribute to universal service and that contributors are not competitively disadvantaged *vis-à-vis* other providers of functionally equivalent facilities-based services by inequitable or discriminatory contribution requirements. Expanding

the contribution base may require amending Section 254(d), which currently limits contributions to “telecommunications carriers,” or may require a public interest finding by the FCC extending contribution requirements to other providers of interstate telecommunications. For example, the term “telecommunications carriers” includes DSL providers but does not require contribution by cable modem providers, which do not provide telecommunications to end users, but which use telecommunications to provide cable modem service to end users.

2. *Assess a connections-based fee.* Contributions to the fund should be based on a per-connection fee (which could include telephone numbers-based proposals).<sup>13</sup> This approach should ensure competitive neutrality, in that one technology is not favored over another.

### **The Future of Universal Service and Competition**

GCI is moving steadily toward fulfillment of its plans to deploy full facilities-based competition through cable telephony. GCI is now testing IP-based cable telephony and has commenced service trials that will continue over the next several months. Cable telephony deployment will enable GCI to reach the majority of its local service customers entirely over its own facilities, and the ILEC has given GCI every incentive—from discrimination of its customers to seeking unprecedented relief from UNE loop unbundling obligations—to do so. The competitively neutral universal service policy in place today is the right approach, and it is the only approach that makes sense in a market where two facilities-based carriers provide functionally the same service.

GCI believes that its continued strides toward full facilities-based competition is just the type of competitive evolution that Congress expected when it passed the Telecommunications

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<sup>13</sup> For those providers that do not connect with the public switched telephone network but are required to contribute to USF, a suitable proxy for the connections-based fee should be applied.

Act of 1996.<sup>14</sup> Indeed, facilities-based competition is the very mechanism that will discipline universal service demand by reducing over time the make-whole subsidy that ILECs in competitive markets still expect to receive. In this regard, the competitive advancements in the Alaska market serve as a blueprint for the Nation and underscore that competition and universal service work in tandem to satisfy the goals of the Act. Competitively neutral universal service policies are essential to ensuring the development and delivery of services that are reasonable comparable in price and quality throughout all regions. Thus, the continued availability of universal service on a competitively neutral basis will ensure both the sustainability of the fund and that the benefits of competition will be available for all consumers.

Thank you for the opportunity to present GCI's views on this important issue.

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<sup>14</sup> See Attachment 2, "GCI Proposal for Shared COLR and Pricing Flexibility in Competitive Local Markets."

**COMPETITIVELY NEUTRAL UNIVERSAL SERVICE POLICIES MUST BE  
PRESERVED**

The FCC requires that competitive eligible telecommunications carriers (“CETCs”) are entitled to universal service high cost support on a per-line basis based on the incumbent local exchange carrier (“ILEC”) costs, up to the UNE price. This is a competitively neutral approach for issuing universal service to competitive carriers, consistent with the goals and purposes of the Act. It is clear that a level playing field can only be maintained if ILECs and CETCs have access to universal service support in the same amount for the same quality service. ILECs as a group, however, have attempted to tilt the playing field in their direction by seeking to deny USF support to CETCs.

ACS, the Alaska ILEC, has raised similar arguments. ACS has claimed that CETC loop costs, measured by UNE rates, should be used to determine CETC high cost loop support. According to ACS, its monthly loop costs for Fairbanks are \$33, and GCI’s are \$19.19, the UNE loop rate. Because high-cost loop support is paid for costs in excess of \$23 per month, ACS claims that GCI should receive no support for its Fairbanks customers. The FCC previously rejected the basis for ACS’ discriminatory proposal in implementing Section 254 in order not to discourage competition in high cost areas, and ACS’ latest efforts to change this policy must likewise be rejected.

***Using CETC costs as a separate basis for CETC high cost loop support would undermine positive competitive pressures.*** Calculating CETC support based on CETC costs while subsidizing the ILEC based on its embedded costs eliminates incentives to control costs and rewards inefficiency by giving the CETC the same inappropriate incentive to inflate costs that has existed for ILECs under rate base/rate-of-return regulation. If a CETC simply loses USF support when it cuts costs through efficiencies, the CETC has no incentive to implement such measures. Even worse, the system championed by ACS would destroy the appropriate price signals that drive competition and force competitors—CETCs and ILECs, alike—to strive to deliver the highest value product at the lowest price. In the end, the ACS plan would have American consumers—who ultimately pay for universal service—forego the opportunity for higher quality and lower priced service by disadvantaging competitive service, particularly in rural areas.

***Issuing support on differing cost bases would disrupt the competitive market environment.*** A high-cost subsidy should not eliminate the healthy competitive battle to reduce costs and be the most efficient provider. An essential element of any competitively neutral universal service support system is that support payments in the same market for the same service not differ based on the identity of the carrier providing the service. Further, under a system of uneven support where the ILEC is paid more than the CETC in the same market, the CETC would be required not only to be more efficient than the ILEC’s costs, but also the ILEC’s costs as reduced by the subsidy. This approach would tip the competitive balance in favor of the ILEC, while the current system maintains the competitive balance.

***ACS has mischaracterized GCI's loop costs.*** ACS' claim that GCI's loop cost consists solely of the \$19.19 monthly UNE loop rate is not accurate. A CETC's costs do not consist solely of the price paid for ILEC UNE loops, even for those CETCs that rely extensively on UNE loops. For example: in Fairbanks, the ILEC UNE loop rate of \$19.19 per month comprises only a portion of GCI's loop facilities and costs. GCI also provides facilities, including digital loop carriers, fiber terminals, DSX cross connects, cable and ducts. GCI estimates that these additional per line costs are more than \$11 per month. Using an "apples to apples" cost comparison, therefore, ACS' reported loop costs is \$33 per month, and GCI's is about \$30 per month. Moreover, GCI also provides service entirely with its own loops. ACS' narrow focus on UNE loop rates ignores these other costs of facilities-based competition.

***ILEC-reported embedded costs are not inherently "real" costs.*** ACS presents the embedded cost of a loop as carried on its regulatory books as "actual" costs, but these costs are not objective, unavoidable costs. These embedded book "costs" are a bookkeeping creation, grown out of years of state and federal ratemaking decisions and ILEC investments in a rate base rate-of-return environment that provides little incentive for cost discipline. For example, in July 2002, ACS reported its average loop cost in Fairbanks to be \$33.51, but just months later, in October 2002, that same loop cost was reported to be \$29.50. The ACS loop cost has been a moving target.

Testimony of Dana L. Tindall  
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Attachment 2  
April 2, 2003

## GCI PROPOSAL FOR SHARED COLR AND PRICING FLEXIBILITY IN COMPETITIVE LOCAL MARKETS

GCI currently serves over 40 percent of the local market in Anchorage, Alaska. ACS, the incumbent local exchange carrier (ILEC), retains a monopoly over the loops that serve virtually all the customers in Anchorage. In accordance with these market conditions, GCI has submitted the following proposal to the Regulatory Commission of Alaska to revise local market regulations:

***Carrier of last resort responsibilities:*** A competitive local exchange carrier (CLEC) would be required to share in carrier of last resort (COLR) responsibilities when that competitor serves more than 35 percent of the market over its own facilities and/or with UNEs obtained from the incumbent. Sharing COLR responsibility in some cases may involve the CLEC contributing capital to the ILEC to extend facilities or extending facilities itself to unserved areas such as a new subdivision. In addition, to the extent a CLEC contributes to COLR responsibilities, it would receive corresponding discounts or credits on UNEs purchased from the ILEC. *This balanced approach toward shared carrier responsibilities demonstrates that the advancement of competition need not place with ILECs the sole obligation to bear COLR responsibilities.*

***Reciprocal Unbundling:*** Once a CLEC is required to share COLR responsibilities, the CLEC will also provide reciprocal unbundling of its network to the ILEC at the UNE rates set by the state commission for the market. Telecommunications, by its very nature, requires continuing interconnectivity between providers. This continues to be true even when competition has fully matured in a market. Given this, it is in the public interest to require mutual interconnection and leasing obligations on all providers as competition progresses and matures, rather than eliminating ILEC obligations. *GCI currently offers to ACS unbundled access to loop plant that GCI has installed, at the same rate at which GCI leases unbundled loops from ACS.*

***Retail pricing flexibility:*** Retail rate flexibility (upward and downward) would be made available to any carrier that has a retail market share of less than 65 percent in a service area. This proposal would give ILECs in competitive retail markets greater flexibility to raise and lower rates, more quickly, with less regulatory burden. An ILEC that asserts a "rural exemption" from competition, however, would not be eligible for rate flexibility; by claiming exemption, the ILEC is challenging the very basis of the competition that supports the rate flexibility.

Two conditions apply for retail pricing flexibility: (1) the rate for basic residential dialtone is capped at the existing level, with increases permitted only upon a showing of good cause; and (2) the state commission may disapprove rates that are not just and reasonable. In addition, rate flexibility would not be available for access, wholesale resale, or UNE markets, because the ILEC retains a monopoly in these wholesale markets that is not diminished by

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competition for local retail services. In Anchorage (as in other markets), CLECs are dependent on ACS for loops for the vast majority of customers. *Without continued access to these loops, local exchange competition would virtually disappear.*