COMMENTS OF ACS OF FAIRBANKS, INC.

EXHIBIT A

AFFIDAVIT OF THOMAS R. MEAD

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

	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

Affidavit of Thomas R. Meade

I, Thomas R. Meade, first being duly sworn, do hereby state as follows:

1. My name is Thomas R. Meade and I am employed by Alaska Communications Systems as the Vice President of Revenue Requirements. I have held this position since June of 1999. My job responsibilities cover areas of traditional rate of return regulation, competitive pricing, and other financial and regulatory analysis. I supervise the development of revenue requirement and jurisdictional separations cost studies for access rates and local rates, and the development of costs for unbundled network elements. My responsibilities include review and approval of cost studies used to calculate universal service fund ("USF") payments from the federal high-cost fund.

2. I am familiar with revenue generated by the subscriber loop, and with the cost of providing the loop. Loop revenues include USF (including high-cost loop support ("HCLS"), Long Term Support ("LTS") and Interstate Common Line Support ("ICLS")), state and interstate access, unbundled network element ("UNE") prices, and retail rates. I am familiar with calculating loop costs using both forward-looking and embedded methodologies.

3. Section 54.307 of the Federal Communications Commission ("FCC") regulations (47 C.F.R. § 54.307(a)(1)) states: "A competitive eligible telecommunications carrier shall receive universal service support to the extent that the competitive eligible telecommunications carrier captures the subscriber lines of an incumbent local exchange carrier (LEC) or serves new subscriber lines in the incumbent LEC's service area." This would allow a competitive eligible telecommunications carrier ("CETC") such as General Communication, Inc. ("GCI") to recover the same USF per line as ACS of Fairbanks, Inc. ("ACS-F") in Fairbanks. Current data shows that the average monthly loop support per line in Fairbanks will be about $6.37 in 2003. This includes HCLS, $2.43, LTS, $1.85, and ICLS, $2.09. (*See* Exhibit I, attached; *see also,* Report HC01 and HC04, available at http://www.universalservice.org/overview/filings/default.asp (listing, among other things, HCLS, LTS, ICLS, and loops by study area). Pursuant to 47 C.F.R. § 36.631, incumbent local exchange carriers ("ILECs") reporting 200,000 or fewer working loops do not receive universal service fund HCLS until their loop costs exceed 115% of the national average loop costs. The FCC rules at 47 C.F.R. § 36.622 have frozen the annual national average unseparated loop cost at $240, or $20 per loop per month. Therefore, 115% of the national average monthly loop cost is $23.00.

4. In order to implement a cap on the size of the high-cost fund per 47 C.F.R. § 36.603(a), the national average loop cost is adjusted upward to compute distributions. As of December 11, 2002, the adjusted national average loop cost is $267.15 annually, or $22.26 monthly. (*See* Exhibit II, Letter from Sue Barrett, Director, National Exchange Carrier Association ("NECA"), to Tom Meade, Alaska Communications Systems, December 11, 2002 with attachment "UNIVERSAL SERVICE FUND, PAYMENT PROJECTION FOR 2003".) As

a result, ILECs receive no HCLS until their monthly costs exceed $25.60, 115% of the re-calibrated national average.

5. GCI is now eligible to collect universal service funds in Fairbanks. However, under the GCI – ACS-F interconnection agreement (imposed on the parties by the Regulatory Commission of Alaska ("RCA")), GCI's monthly cost per UNE loop was set at $19.19. (Interconnection and Resale Agreement Between ACS of Fairbanks, Inc. and GCI Communication Corp., entered into Sept. 3, 2000, at Part C – Attachment 1, Table 1 (publicly available from the RCA).) GCI's loop cost is $6.41 below the current ILEC threshold for receiving *any* HCLS.

6. ACS-F's monthly cost per loop, as calculated pursuant to 47 C.F.R. § 36.621 to compute HCLS, for 2003 is projected to be $29.50. (*See* Exhibit II, NECA calculation of ACS-F study area cost per loop, per year to be $354.02.) This calculation is conservative, in that it does not allocate certain necessary operating costs to the loop, such as the cost of vehicles and other support assets. These expense categories were theoretically included in GCI's UNE loop rate of $19.19 per month. If GCI were required to compute a loop rate pursuant to 47 C.F.R. § 36.621 to demonstrate a need for HCLS, GCI's monthly revenue requirement per loop could exceed $19.19 only for those lines for which it added loop facilities. I am not aware of any situation in which significant costs of this type have been incurred.

7. Lines which GCI provides by purchasing ACS-F UNE loops are owned and maintained by ACS-F, not GCI. The unseparated loop cost calculated by Part 36 includes return, depreciation, maintenance, corporate operations expenses, benefits, and rent. Under 47 C.F.R. § 36.621, these loop costs are assigned in proportion to *investment* in loops. As the loop

investment is owned by ACS-F, not GCI, Section 36.621 would not provide a means of allocating other GCI overhead costs to loops where there is no direct loop investment and associated maintenance expense. Consistent with the FCC's Part 36 rules, this treatment of corporate expenses would be appropriate for a CETC, since the ownership, maintenance, and administration of loop facilities cause the ILEC to incur the expenses that are subsequently allocated to the loop based on investment (e.g., facilities tracking systems, costs to obtain financing, capital planning expense, accounting and payroll for outside plant personnel, etc.). GCI, however, would have insignificant loop investment for any of the loops rented from ACS-F on a UNE basis. Thus, as stated, GCI's loop costs calculated under Part 36 of the FCC's rules for HCLS would exceed the price at which ACS-F leases its UNE loops to GCI – $19.19 – only if GCI builds loop plant.

8. I am aware that GCI has self-provisioned some of its local loops in Fairbanks. In fact, ACS has reason to believe that GCI is collecting USF for loops that GCI self-provisions to its own ISP and that *never leave its own building*. In every such case, I presume that the cost of such loops is less than $19.19 per month per loop or GCI would have elected to provision service over a less expensive UNE loop. Consequently, despite GCI's self-provisioning of some loops, I am not aware of any evidence that GCI has an average Fairbanks monthly loop cost in excess of $19.19.

9. Both LTS and ICLS are calculated using the ILEC's embedded cost for subscriber loop facilities. While the computation is different from the HCLS computation, higher loop costs generate higher LTS and ICLS. Allowing a CETC that can rent low-cost loops the same per-line support as a higher-cost ILEC creates a competitive advantage for the CETC.

Because GCI's RCA-mandated loop cost is lower than ACS-F's loop cost, GCI should receive less support than ACS-F.

10. Although the city of Fairbanks has a relatively densely populated downtown area, the study area also encompasses extremely rural areas, in which isolated homes and businesses are located many miles from the population center. (*See* ACS of Fairbanks, Inc., *Disaggregation and Targeting Plan*, at 4 (filed May 15, 2001) ("Disaggregation Plan") (the Disaggregation Plan was filed with the RCA and copies were sent to USAC and NECA).) In some parts of the Fairbanks service area, line density is less than five lines per square mile. Extremes of the Alaska climate and geography make reaching consumers living in this rural setting even more difficult than in other rural markets. The cost of serving each customer varies widely. For example, monthly loop costs range from approximately \$11 per line in the downtown Fairbanks area to approximately \$270 per line in the most rural parts of the study area.

11. Current Alaska intrastate access regulations allow a CLEC such as GCI to recover the same revenue per line as the ILEC from the interexchange carriers ("IXCs"). In Fairbanks this is currently \$6.36 per line per month, as set forth in the ACS-F intrastate tariff. (ACS of Fairbanks, Inc., Intrastate Access Charge Tariff, First Revised, effective July 23, 2002 (publicly available from the RCA).)

12. GCI's CLEC interstate access tariff (Tariff FCC No. 3, effective March 1, 2002) shows that GCI charges an End User Common Line Charge (EUCL or Subscriber Line Charge). GCI refers to this on its web site as a charge "established by the FCC to recover a portion of the loop costs that is not recovered through basic local rates." GCI charges a

residential customer in Fairbanks is $6.00 per month per line, and a multi-line business customer in Fairbanks $9.20 per month per line. (*See* http://www.gci.com/Taxes_Invoice.pdf.)

13. Under the current FCC and RCA regulations, the monthly revenue GCI may generate from the loop alone (through HCLS, ICLS, LTS, subscriber line charge, and intrastate common line access charges) is $21.93 per multi-line business line per month. (*See* Exhibit III, attached.) This does not include revenue generated by billing the subscriber for local telephone service, or by billing IXCs a per-minute carrier common line charge. The monthly loop-specific revenue GCI may generate per single line business and residential line is $18.73, not including revenue generated by billing the subscriber for local telephone service, or by billing IXCs a per-minute carrier common line charge.

14. ACS-F has disaggregated federal support using two zones. ACS-F's UNE prices have not been deaveraged. But neither USF disaggregation nor UNE deaveraging will eliminate arbitrage problems in Fairbanks. I have provided examples in Exhibit IV hereto to explain why disaggregation does not resolve the issues I have raised. The top half of Exhibit IV illustrates the results of a three-zone USF disaggregation plan assuming retention of the flat UNE rate of $19.19 per line per month. In that case, GCI loses its cost advantage in Zone 1 (GCI would have a cost disadvantage of $3.89), but gains significant cost advantages of $7.67 and $49.74 in Zones 2 and 3 respectively. The bottom half of Exhibit IV illustrates the results if the UNE rate is deaveraged and the USF support is disaggregated. In that case, GCI would continue to have a cost advantage in all three zones of $5.35, $9.39, and $24.09 in Zones 1, 2 and 3 respectively. Since GCI's retail rate is based on a UNE rate that is far less than ACS-F's actual

cost in every zone, disaggregation simply shifts the arbitrage opportunities from one zone to another. Disaggregation results in GCI's average cost advantage remaining the same.

Further Affiant Sayeth Not.

Thomas R. Meade

Subscribed and Sworn to before me this 5th day of May, 2003.

ANNE L. FLEMING
My Commission Expires June 12, 2006
NOTARY PUBLIC
STATE OF ALASKA

Anne L Fleming
Notary Public for the State of Alaska
My Commission Expires: 7/12/06

AFFIDAVIT OF THOMAS R. MEADE

EXHIBIT I

FAIRBANKS LOOP SUPPORT

Comments of ACS of Fairbanks, Inc.
CC Docket No. 96-45
May 5, 2003

Fairbanks

Loop Support

	Monthly Amount		Number of Loops		Monthly Amount Per Loop
High Cost Loop	$ 108,795	1)	44,825	2)	$ 2.43
Long Term Support	$ 83,003	1)	44,825	2)	$ 1.85
Interstate Common Line Support	$ 93,856	1)	44,825	2)	$ 2.09
Total	$ 285,654				**$ 6.37**

1) 5/01/03 USAC website - 2Q2003 HC01 spreadsheet

1) 5/01/03 USAC website - 2Q2003 HC04 spreadsheet

Exhibit I

AFFIDAVIT OF THOMAS R. MEADE

EXHIBIT II

NECA CORRESPONDENCE SHOWING

ANNUAL LOOP COST FOR ACS OF FAIRBANKS, INC.

AND

NATIONAL AVERAGE LOOP COST ADJUSTMENT

NECA
1320 Willow Pass Road, Suite 550
Concord, CA 94520

Susan Barrett
Director – Pacific Region

Voice: 925 603-0506
Fax: 925 687-0421
E-mail: sbarret@neca.org

December 11, 2002

Tom Meade
VP – Revenue Requirements
Alaska Comm. Systems
600 Telephone Avenue - MS8
Anchorage, AK 99503-6091

Subject: 2003 Universal Service Fund (USF) Payment Projections for Cost Companies

Dear Mr. Meade:

Enclosed is a report showing the 2003 Universal Service Fund (USF) payment projections for your study area as filed by NECA with the FCC on October 1, 2002. These amounts are taken directly from the annual submission filed with the FCC.

The attached projections for 2003 are based on information that NECA has available at the present time. They are based upon the new FCC Rules, size of the fund, NACPL, prior year fund size and the adjustment for the Rural Growth Factor.

This information will be reported to your State Commission by USAC. If you have any questions, please contact your Region NECA Member Service Manager at 800-223-8495.

Sincerely,

Susan M Barrett

Sue Barrett
Director

Attachment

UNIVERSAL SERVICE FUND

PAYMENT PROJECTIONS FOR 2003

Company Name	Study Area	NECA Region
ACS-FAIRBANKS, INC.	613008	PACIFIC

On October 1, 2002 NECA filed Universal Service Fund data with the Federal Communications Commission. This included amounts reported to NECA by your company as required by FCC rules, as well as calculated amounts for unseparated revenue requirement, loop cost and projected payments. NECA will also provide this data to your state commissions, as requested by the FCC.

USF URR	USF LOOPS	SACPL
15,868,893	44,825	$354.02

The annual payment shown below, which is scheduled to take effect January 1, 2003, is based on a National Average Cost Per Loop of $267.15 for Rural Companies. Your payment may be adjusted throughout the year due to changes in data reported by your company for reconciliation, Errors and Omissions and quarterly updates. Payments may be further adjusted to maintain the fund within limits imposed by the annualized fund cap of $1,044.6 million.

2003 ANNUAL PAYMENT

$1,363,504

AFFIDAVIT OF THOMAS R. MEADE

EXHIBIT III

MARGIN COMPARISON FOR COMPETITIVE NEUTRALITY

LOOP-SPECIFIC REVENUE IN FAIRBANKS

Comments of ACS of Fairbanks, Inc.
CC Docket No. 96-45
May 5, 2003

Fairbanks

Margin Comparison for Competitive Neutrality
Loop-Specific Revenue

	ACS Multi-Line Business Monthly Amount Per Loop	GCI Multi-Line Business Monthly Amount Per Loop
High Cost Loop Support	$ 2.43	$ 2.43
Long Term Support	$ 1.85	$ 1.85
Interstate Common Line Support	$ 2.09	$ 2.09
Total Support	**$ 6.37**	**$ 6.37**
Interstate Subscriber Line Charge	$ 9.20	$ 9.20
State Common Line Access Charges	$ 6.36	$ 6.36
Monthly Loop Revenue	**$ 21.93**	**$ 21.93**
Monthly Loop Cost	**$ 29.50**	**$ 19.19**
Remaining Loop Cost to be recovered through Local Rates, CCL, and other services	**$ 7.57**	**$ (2.74)**
GCI Competitive Advantage		**$ 10.31**

AFFIDAVIT OF THOMAS R. MEADE

EXHIBIT IV

DISAGGREGATION EXAMPLE

Disaggregation Example
Fairbanks

Margin Comparison for Competitive Neutrality
Loop-Specific Cost & USF

	ACS Cost	Disagregated USF	ACS Net Cost After USF	Price to GCI	Disagregated USF	GCI Net Cost After USF	GCI Margin Advantage (Disadvantage)		GCI Margin Advantage (Disadvantage)
Current UNE Price									
Zone 1	15.30	5.36	9.94	19.19	5.36	13.83	(3.89)	299,268	(3.89)
Zone 2	26.86	10.62	16.24	19.19	10.62	8.57	7.67	437,647	7.67
Zone 3	68.93	10.62	58.30	19.19	10.62	8.57	49.74	136,997	49.74
Weighted Average	29.50	8.82	20.68	19.19	8.82	10.37	10.31	873,913	(19.19)
								19.19	
Disaggregated UNE Price									
Zone 1	15.30	5.36	9.94	9.95	5.36	4.59	5.35	155,193	5.35
Zone 2	26.86	10.62	16.24	17.47	10.62	6.85	9.39	398,505	9.39
Zone 3	68.93	10.62	58.30	44.84	10.62	34.21	24.09	320,082	24.09
Weighted Average	29.50	8.82	20.68	19.19	8.82	10.37	10.31	873,780	(19.19)
								19.19	
								(19.19)	

Exhibit IV

This example uses the ACS of Fairbanks, Inc. Disaggregation and Targeting Plan (filed May 14, 2002) ("Disaggregation Plan") as a basis. (The Disaggregation Plan was filed with the RCA, with copies sent to USAC and NECA.) It includes Local Switching Support as well as loop support, and assumes that the current 2-zone (path three) USF disaggregation will remain in effect with a 3-zone UNE disaggregation, with Zone 1 boundaries remaining the same.