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

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
	)	
High cost Universal Service Support	)	WC Docket No. 05-337

COMMENTS OF
SANDWICH ISLES COMMUNICATIONS, INC.
TELALASKA, INC.
YUKON TELEPHONE COMPANY, INC., ET. AL

Sandwich Isles, TelAlaska, Yukon Telephone, Adak Telephone Utility, Bristol Bay Telephone Cooperative, Copper Valley Telephone Cooperative, Cordova Telephone Cooperative, OTZ Telephone Cooperative, Summit Telephone Company, and United Utilities (STYu, et. al) hereby submit comments in response to the Commission's Notice of Proposed Rulemaking (NPRM) in the above-captioned proceeding. STYu, et. al will limit their comments to address only the proposal by Puerto Rico Telephone Company, Inc. (PRTC) for a non-rural insular mechanism to provide high cost universal service support.

STYu, et. al have an interest in this issue because many of the concerns and issues raised by PRTC are similar to those impacting their own infrastructure deployment and operations. Although STYu, et. al are rural Local Exchange

Carriers (RLECs) that currently receive "sufficient" universal service support based on embedded cost, STYu, et. al believe that the challenges of being "insular" create a common set of needs for all service providers that are obligated to serve insular areas, including the Alaskan bush and rural Hawaii. Therefore, STYu, et. al agree that development of rules specific to the needs of this "insular" classification of carriers should be promulgated by the Commission.

STYu, et. al particularly appreciate this Commission's initiative in more fully exploring the unique needs and issues pertaining to "insular" areas. Such a study has not been concluded by predecessor Commissions, even though Congress clearly stated in the Telecom Act of 1996 that insular needs should be assessed and addressed by the Commission in developing universal service support mechanisms. In fact, Congress went a step further in emphasizing the needs of consumers in insular areas in its Joint Explanatory Statement. Therein (Statement at 131) Congress directed the Joint Board and the FCC to consider consumers in insular areas (emphasis added) when developing support mechanisms for consumer access to telecommunications and information services.

I. Summary

Today we see mega-mergers taking place in the wireline industry as a competitive response to convergence. The giants of the telephone, cable, and wireless industries are all preparing to go head to head for the most lucrative urban markets. Rural America will be neglected by these giants – the urban

"haves" and the rural "have nots" is becoming a more probable scenario. Financial gain that is the primary concern of the shareholders and officers of these corporate giants cannot be delivered serving insular areas, such as rural Hawaii and the Alaskan bush.

It takes a local presence, local focus, and local dedication to create economic development in remote rural areas, which scenario goes hand in glove with improved subscribership penetration rates. Infusion of local capital and creation of jobs are needed to bolster local economies in rural America. This is foreign to the business plan of the new AT&T, for example, unless "local" means the top 100 MSAs or other points on the globe representing earnings potential. The Congressional mandate for universal service is not going to be fulfilled by the largest carriers represented on Wall Street.

To accomplish our nation's goal of universal service it is imperative that the Commission's programs generate confidence and encourage communications infrastructure investment by the financial community. The measure against which all universal service support mechanisms must be evaluated then is the provision of the Telecom Act requiring that support be "specific, predictable, and sufficient." This provision was intended to assure lenders and investors alike that rural communications investment was secure.

The existing non-rural support mechanism is model driven, disconnected from company specific revenue requirements, and does not measure up to the standard of the Act. STYu, et. al agree with PRTC that universal service support mechanisms that incorporate embedded cost, and that are coupled with rate of

return regulation, are fundamental to ensuring the continuation of universal service.

STYu, et. al are particularly in agreement with PRTC that RLECs operating in insular areas have needs above and beyond the norm, especially when fulfilling an obligation to provide universal service. Just the high cost of transporting communications services to consumers in insular areas, which must include rural Hawaii and the Alaskan bush, has the potential to make telephone services either unaffordable or unavailable. To fund the cost of communications facilities in insular areas, the FCC should establish an additional and separate universal service support mechanism for an "insular" classification of carriers.

Without "predictable" and "sufficient" universal service support, prudent investors and lenders, including the U.S. Department of Agriculture, Rural Utilities Service (RUS), are hesitant to provide funds for construction of communications infrastructure in these very high cost service areas. Investors and lenders are looking for certainty and stability in RLEC revenue streams. A forward looking cost model used to determine support cannot capture the unique needs insular areas present. Therefore, an embedded cost mechanism is necessary to create the certainty, which comes from "predictability" and "sufficiency," that will generate confidence in the financial markets and encourage investment.

Previous Commission decisions have produced multiple universal service support mechanisms over a number of years and through a number of access reform proceedings. This Commission should attempt to simplify "insular"

support by creating a single, comprehensive support mechanism that meets the "predictable" and "sufficient" requirement in the Act for Puerto Rico and rural ETCs that serve insular areas. In concept, not only must an "insular support" mechanism be based on embedded cost, it must work from a total regulated, unseparated, revenue requirement incorporating an authorized rate of return. "Insular support" should be provided equal to this revenue requirement, less all other regulated revenues -- i.e., those revenues generated from interstate and intrastate access services, plus the higher of actual local service revenues or imputed local service revenues incorporating an urban national average rate.

In addition, rate of return regulation has historically provided "specific, predictable and sufficient" earnings. These authorized earnings must continue to meet earnings targets that lend confidence to the financial community, i.e. those based on EBITDA and times interest earned ratios (TIER). Insular support should produce earnings that meet the lender requirements necessary to secure capex funding for communications infrastructure.

Conceptually, as insular service providers are increasingly successful in supporting the communications and information needs of their service areas, regulated revenues will grow and insular support will diminish. Robust economic development coming in part from a modern communications platform will translate directly into a lesser demand on the universal service fund.

Administration of an "insular support" mechanism preserves a significant role for the State Public Utility Commissions. Additional oversight provided in the annual ETC certification process at the state level can help ensure that carriers

receiving "insular support" properly use those funds "...only for the provision, maintenance and upgrading of facilities and services for which the support is intended." Any decision to obligate more than one ETC in these areas must also confer with it the requirement that each provider establish its own cost and universal service funding requirement. "Sufficient" support should reflect only the costs incurred by each carrier to accomplish its own service objectives - no more, no less.

Administration of an "insular support" mechanism also establishes a new role for NECA. NECA has demonstrated its ability to understand the Commission's rules and manage the regulatory processes utilized to establish service cost, based on rate of return regulation. For more than 20 years NECA has administered interstate access tariffs and supported USAC with USF data collections, reviews, and cost determinations. No organization is better prepared to take on this responsibility – no organization knows and understands rural communication costs better than NECA. Determination of required insular support amounts would parallel the work done today by NECA in support of USAC's administration of the existing universal service support mechanisms.

II. Introduction

STYu, et. al are rural Eligible Telecommunications Carriers (ETCs) operating wireline communications systems in Alaska and Hawaii. STYu, et. al are currently receiving universal service support from the rural high cost mechanisms, which when combined with their participation in the NECA pools, have enabled them to deploy modern communications infrastructure in arguably

some of the most remote, high cost service areas of the nation. STYu, et. al offer affordable communications services to consumers residing in these areas.

Sandwich Isles currently serves approximately 1400 subscribers in 9 exchanges located on 5 of the Hawaiian Islands. TelAlaska serves approximately 13,000 subscribers in 23 exchanges in some of the most remote service area of Alaska. Yukon Telephone serves approximately 700 subscribers in 3 exchanges located in the Interior of Alaska and the Prince William Sound. Adak Telephone, which serves 154 access lines in 1 exchange, is 1200 miles from Anchorage on Adak Island in the Aleutian chain. Bristol Bay serves 1,750 access lines located in 8 rural western Alaskan communities. Copper Valley serves 5,700 access lines in 6 exchanges. Cordova Telephone serves 2,000 access lines in 1 exchange. OTZ Telephone serves 3,900 access lines in 10 villages that are scattered across 36,000 square miles of service area, most of which is above the Arctic Circle, and the Red Dog Mine. Summit Telephone serves 243 access lines in 3 non-contiguous exchanges. United Utilities is Alaskan native owned and serves 12,000 access lines in 60 rural Alaskan exchanges.

Similar to the challenges enumerated by PRTC, STYu, et. al have overcome the logistical issues of shipping equipment and supplies to some of the most remote areas on the globe, are managing larger inventories of supplies and repair parts, have deployed communications infrastructure in lava, coral, sand and across vast wilderness regions, and continue to battle salt air and extreme elements daily, which can range from torrential and hurricane rains to sub-zero

blizzard conditions. Undoubtedly, high cost support is essential for STYu, et. al to maintain and expand affordable communications services.

Consider briefly the story of Sandwich Isles Communications in expanding affordable, quality communications services to the remote Hawaiian Home Lands. The "Hawaiian Homes Commission Act (HHCA) of 1920" reserved 203,500 acres, "more or less," of public lands in the Territory of Hawaii for homesteading by native Hawaiians. Today, these lands, called the Hawaiian Home Lands (HHL), include 69 non-contiguous parcels located on the 6 major Hawaiian Islands. The HHL are being developed by the State of Hawaii, Department of Hawaiian Home Lands (DHHL) for the residential, agricultural, pastoral, and commercial use of native Hawaiian beneficiaries. The DHHL is responsible for maintaining the integrity of the HHCA in administering its programs. The DHHL has approximately 21,000 applicants for beneficiary leases and 7,400 existing leases.

Sandwich Isles is a native Hawaiian-owned company. It was founded in 1995 in response to a request from the DHHL to provide modern communications infrastructure and services to its beneficiaries. GTE, the only local exchange carrier operating in the State of Hawaii at that time, required significant "contributions to aid construction" from DHHL to construct new infrastructure to serve these remote HHL communities. In effect, by GTE's actions the more remote HHL were going unserved, even though new communities were being planned and developed by the State.

In 1995 DHHL granted Sandwich Isles a license to build, operate, and connect all HHL parcels statewide with a network that will deliver modern communications services to all HHL residents. Sandwich Isles has made significant investment to bring service to the HHL. The RUS has provided low interest loans and Sandwich Isles has obtained additional private financing to fund the network, which meets all of the design and engineering criteria of RUS. In addition, as an RUS borrower, Sandwich Isles is prohibited from charging DHHL with "contributions to aid construction." So DHHL resources are freed up to provide basic infrastructure, including roads, water, and electricity for new communities being developed on the HHL.

In Alaska, a land mass one-fifth the size of the continental United States, and stretching quite literally from border to border and coast to coast, 19 rural LECs provide service to approximately 184,000 customers in 256 towns and villages. The vast majority of these towns and villages are not on any road system and can only be reached by airplane or boat. Because there are no roads, there are no landline communications systems between locations. Inter-exchange communication is over satellite.

Like the Hawaiian Islands, the Caribbean, and the Micronesian Islands, the communities in the Alaskan Bush are awash in a seemingly endless sea of uninhabited land. Because of the vast distances involved, these communities are dependent on communications for health, public safety, economic development and even for such essentials as purchasing their food. Until the early 1970s most rural Alaska communities had no single-party telephone

service, and residents instead shared a single public telephone. Today, much of rural Alaska enjoys the technological advantages of distance learning and telemedicine. Individuals, businesses and other institutions have advanced data networks to support quality of life and economic development of their communities. This has all been made possible through the existing USF programs.

III. **Impact of High Cost Support on Subscribership Rates**

Without high cost support, prudent investors and lenders, including the RUS, are hesitant to provide funds for construction of communications infrastructure in high cost rural service areas. Without the "predictable" and "sufficient" revenue stream such support represents, the financial justification for the business plan fails. Affordable rates similar to those paid for communications services in urban areas will not provide the financial underpinnings necessary to build networks in high cost, sparely populated rural areas. And the logical conclusion of the matter is that adequate infrastructure is not deployed and service simply is not available for those that live outside the "economically feasible" footprint of the service provider, i.e. – subscribership penetration rates are lower than they otherwise would be where universal service support is not available.

Again, Hawaii's experience demonstrates the validity of this observation, and the importance of high cost support. Even in the 1990's, GTE would provide only multi-party service in areas it considered remote, particularly those areas on the "neighbor islands," including the HHL. Essentially, without high cost support,

GTE was unwilling to extend quality infrastructure to the HHL unless it received "contributions to aid construction." This fact brought development of the HHL to a halt, since DHHL needed to commit all its financial resources to other utility infrastructure.

It was not until the emergence of Sandwich Isles that modern, high quality communications infrastructure began to be deployed for the remote HHL. Given the very high construction costs in these areas, it is understandable that for a company like GTE, whose focus was on serving profitable urban markets and on achieving earnings objectives for its shareholders, the infrastructure deployed to serve its sparsely populated rural areas can be described as only nominal, at best.

Fast forward to the present day. We see mega-mergers taking place in the wireline industry as a competitive response to convergence. The giants of the telephone, cable, and wireless industries are all preparing to go head to head for the most lucrative urban markets. Rural America will be neglected by these giants – the urban "haves" and the rural "have nots" is becoming a more probable scenario. Ten months ago, Verizon walked away from the State of Hawaii. The RBOCs never established a presence in Alaska. Financial gain that is important to the shareholders and officers of these corporations cannot be delivered serving the insular areas of rural Hawaii or the Alaskan bush.

It takes a local presence, local focus, and local dedication to create economic development in remote rural areas, which scenario goes hand in glove with improved subscribership penetration rates. Infusion of local capital and creation

of jobs are needed to bolster local economies. This is foreign to the new AT&T, for example, unless "local" means the top 100 MSAs or other points on the globe representing earnings potential.

IV. Impact of Previous Commission Decisions

A. Unworkable Forward Looking Cost Model

The measure against which all universal service support mechanisms must be evaluated is the provision of the Telecom Act requiring that support be "specific, predictable, and sufficient." The existing non-rural support mechanism is model driven and does not measure up. This high cost model was shown by the Rural Task Force (RTF) to significantly miss the mark as an accurate means of predicting embedded cost, which is still and was then the basis for the revenue streams of rural carriers. The RTF showed that the model's variance from embedded cost results was over $1 Billion, and produced many "winners" and "losers." That is to say that the "predictable" and "sufficient" requirements of universal service support, set by Congress and required by law, were unfulfilled by the model. Investors and lenders are looking for certainty and stability in RLEC revenue streams. Instead of a forward looking cost model, an embedded cost support mechanism that incorporates an authorized rate of return is necessary to create this certainty and generate confidence in the financial markets.

RUS was a member of the RTF, and it also demonstrated that the model missed the mark even in predicting the forward looking costs of its rural

borrowers. The financial revenue requirements for several pending RUS loans, incorporating "forward looking" area coverage designs, were compared to the model results. Support funds generated by the model were found to be insufficient by RUS. Thus, embedded cost, as PRTC argues, is the best means of establishing "predictable" and "sufficient" support for carriers serving rural/insular high cost service areas. Without such support, investors and lenders will not provide capital funding for this critical infrastructure.

B. Complex System of Multiple Rural Support Mechanisms

Previous Commission decisions have produced multiple rural support mechanisms over a number of years and through a number of access reform proceedings. Given that the RLECs receive support through a complex system of various mechanisms - the High Cost Loop Fund, Local Switching Support, and Interstate Common Line Support, this Commission should attempt to simplify "insular" support by creating a single, comprehensive support mechanism that is "predictable" and "sufficient" for ETCs that serve insular areas, including the RLECs that serve Alaska and Hawaii.

Prior Commission decisions have also determined that for competitive neutrality, Competitive Eligible Telecommunications Carriers (CETCs) should receive the same per line support as the wireline ETC. In the extreme circumstance of serving insular areas, including the rural areas of Alaska and Hawaii, any decision to obligate more than one service provider in these areas must also confer with it the requirement that each provider establish its own cost and universal service funding requirement. "Sufficient" support reflects the costs

incurred by each carrier to accomplish its own service objectives - no more, no less.

V. Concept for an Insular Support Mechanism

The measure against which any support mechanism must be evaluated is the provision of the Telecom Act requiring that universal service support be "specific, predictable, and sufficient." For that reason, in concept an insular support mechanism should be based on embedded cost, as PRTC proposes. To be "predictable" and "sufficient," it must work from a total regulated, unseparated, embedded cost revenue requirement incorporating an authorized rate of return. Insular support should be provided equal to this revenue requirement, less all other regulated revenues -- i.e., those revenues generated from interstate and intrastate access services, plus the higher of actual local service revenues or imputed local service revenues incorporating an urban national average rate.

In addition, rate of return regulation has historically provided "specific, predictable and sufficient" earnings. These authorized earnings must continue to meet earnings targets that lend confidence to the financial community, i.e. those based on EBITDA and times interest earned ratios (TIER). Insular support should produce earnings that meet the lender requirements necessary to secure capex funding for communications infrastructure.

This concept presumes that current reform of Intercarrier Compensation should lead to a unified interstate/intrastate schedule of access rates. This is necessary to avoid problems with arbitrage of access and similar services, based

on state and interstate tariff rate differentials for these essentially same services. Incorporating an urban national average rate ensures service rate comparability between urban and rural service areas, thus meeting the fairness requirement embodied in the Act.

This concept also presumes a significant role for the State Public Utility Commissions. In March 2005 the Commission provided the state commissions with additional guidelines for the ongoing certification of ETCs. This additional oversight provided in the annual ETC certification process at the state level can help ensure that carriers receiving insular support properly use those funds "...only for the provision, maintenance and upgrading of facilities and services for which the support is intended." In addition, lenders will likely satisfy themselves that use of loan funds to deploy infrastructure in these insular and high cost areas will be consistent with public policy goals supporting expansion of communications services.

Determination of required insular support amounts would parallel the work done today by NECA in support of USAC's administration of the existing high cost programs. Intuitively, it seems feasible that NECA and USAC should work this additional "insular support" mechanism into their current oversight roles, and that this would result in little or no incremental program costs. NECA has demonstrated its ability to understand and manage the rate of return regulatory process of cost determination over a 20+ year period of administering interstate access tariffs and supporting USAC with USF data collections, reviews, and cost determinations. No organization is better prepared to take on this responsibility –

no organization knows and understands rural communications costs better than NECA.

Conceptually, as insular service providers are increasingly successful in supporting the communications and information needs of their service areas, regulated revenues will grow and insular support will diminish. Robust economic development coming in part from a modern communications platform will translate directly into a lesser demand on the universal service fund.

VI. Definition of Insular Areas

In the *Unserved Areas* NPRM, the Commission tentatively concluded that Puerto Rico, American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the U.S. Virgin Islands are properly included in the definition of insular areas. STYu, et. al agree that they are properly included. However, insular means "constituting an island" or "having an isolated habitat," therefore, STYu, et. al believe that rural Hawaii and the Alaskan bush are insular, as well. These areas have unique qualifying factors that classify them as "insular." It follows that "rural" carriers and consumers in Alaska and Hawaii should benefit from an "insular support" mechanism, if it were promulgated in a rulemaking.

The same cost drivers that impact Puerto Rico, and the other islands tentatively considered to be insular, are clearly at play in these two states. For example, consider just the lack of a well developed highway system. In contrast with the "Lower Forty-eight," the Hawaiian Islands and Alaska are lacking the highway systems that set out a natural grid that connects rural communities with

urban centers throughout America. This highway grid system makes even the most remote rural points essentially between major urban centers within the "Lower Forty-eight."

The interstate and state highways that were the pathways for deployment of a modern-day Information Superhighway have no counterpart in Hawaii and Alaska. Instead, construction of facilities can only be accomplished by incurring the costs necessary to penetrate or span oceans and bays, volcanic islands, rugged mountains, and vast wilderness regions to reach pockets of civilization. These small villages must be linked to other consumers and businesses throughout America to fulfill the mandate of the Telecom Act of 1996. Therefore, the bright line defining very high cost rural, insular service areas must include areas within these two states.

Consider also that the "Lower Forty-Eight" has the advantage, even in the most rural western states, of large numbers of incumbent RLECs serving side-by-side in contiguous franchise service areas. Taken together these franchise service areas comprise the vast majority of a state's inhabited geographic area. The RLECs operating in these rural areas have banded together in many instances to create statewide networks (e.g. Iowa Network Services, Minnesota Equal Access Network Services, and others) for the purpose of linking the small towns and rural communities throughout the state with the urban centers. The consumers residing in these rural areas have benefited as a result.

Contrast again Hawaii. Only one small carrier, Sandwich Isles Communications, Inc. has a business plan and commitment to aggressively

deploy communications infrastructure and serve the rural areas of Hawaii. Sandwich Isles has designed a rural network of approximately 700 miles of fiber transport, both terrestrial and undersea, which will connect its noncontiguous service areas throughout the 6 major Hawaiian Islands. These facilities will serve as a "backbone" and effectively ensure the delivery of communications services throughout the rural neighbor islands.

Contrast again Alaska. TelAlaska and Yukon Telephone serve the Alaskan bush. And given the vast wilderness and distances between villages, each carrier must go it alone, generally relying on satellite links to provide transport from these remote locations to the more "urban" population centers and the larger carriers located primarily in Anchorage.

Just the high cost of transporting communications services to consumers in remote areas of Hawaii and Alaska has the potential to make telephone service either unaffordable or unavailable. A lack of quality communications infrastructure will perpetuate an isolated existence for consumers residing in these remote areas. It will slow economic development and lessen overall quality of life, including access to healthcare and education. It will also threaten personal safety during periodic times of natural crises, which might include sub-zero blizzard conditions or tropical hurricanes. In sum, without quality infrastructure, a connection to the broader community, and most certainly a global community, will be absent, taking away the opportunity for Hawaiian and Alaskan communities to grow and develop through participation.

In addition, the strategic location of these states makes availability of a robust communications network critically important to national security. The nation can ill afford to short-change the deployment of some of the nation's most critical infrastructure. A broadband communications network in Hawaii and Alaska must be available to drive our nation's defense systems.

To fund the cost of communications facilities in rural Hawaii and Alaska, and other "insular" areas, the FCC should establish an additional universal service support mechanism. The FCC recognized in its Report and Order adopted in 1997 that other factors may need to be considered with regard to providing adequate communications service in insular areas. In the opinion of STYu, et. al, consumers residing in insular areas, including rural Hawaii and the Alaskan bush, should see benefits from the Commission responding to this need. "Insular support" should become an added element of universal service funding, applying to carriers serving insular areas, including the RLECs serving Alaska and Hawaii.

VII. Conclusion

The nation needs a strong federal universal service support program. STYu, et. al believe that a centralized approach must be taken to ensure "predictable" and "sufficient" federal funding for a timely deployment of a ubiquitous, nationwide broadband capable network.

Affordable local service and DSL rates similar to those paid for communications services in urban areas will not provide the financial underpinnings necessary to build broadband capable networks in insular, sparely

populated rural areas. And the logical conclusion of the matter is that adequate infrastructure will not be deployed and communications services will not be available for those that live outside the "economically feasible" footprint of a service provider, i.e. – subscribership penetration rates will be lower than they otherwise would be where universal service support is not available.

STYu, et. al believe that rural Hawaii and the Alaskan bush are insular. These areas exhibit unique qualifying factors that classify them as "insular." It follows that "rural" carriers and consumers in Alaska and Hawaii should benefit from an "insular support" mechanism, if it were promulgated in a rulemaking by this Commission. The bright line defining very high cost rural, insular service areas must include areas within these two states.

Funding the high cost of communications infrastructure in insular areas is consistent with Congress intent for the Joint Board and the FCC to consider consumers in insular areas when developing support mechanisms for consumer access to telecommunications and information services. And without such funding, it would be difficult, if not impossible, to fulfill the mandate of the Telecom Act of 1996, which established the principle in Section 254(b)(3) that consumers in rural, insular, and high cost areas should have access to telecommunications and information services at rates that are reasonably comparable to rates charged for similar services in urban areas.

A lack of quality communications infrastructure will perpetuate an isolated existence for consumers residing in these insular areas of the nation. It will slow economic development and lessen overall quality of life, including access to

healthcare and education. It will also threaten personal safety during periodic times of natural crises. In sum, without quality infrastructure, a connection to the broader community, and most certainly a global community, will be absent, taking away the opportunity for Alaskan, Hawaiian, and other insular communities to grow and develop through participation.

In addition, the strategic location of these states makes availability of a robust communications network critically important to national security. The nation can ill afford to short-change the deployment of some of the nation's most critical infrastructure. A broadband communications network in Hawaii and Alaska must be available to drive our nation's defense systems. The Commission establishing an "insular support" mechanism will help to ensure this outcome.

Respectfully submitted,

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