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June 13, 2008

VIA ELECTRONIC FILING

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Petition for Reconsideration of ACS of Anchorage, Inc.; *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended (47 U.S.C. 160(c)), for Forbearance from Certain Dominant Carrier Regulation of Its Interstate Access Services, and for Forbearance from Title II Regulation of Its Broadband Services, in the Anchorage, Alaska Incumbent Local Exchange Carrier Study Area*, WC Docket No. 06-109;
Notice of *Ex Parte* Meeting

Dear Ms. Dortch:

On June 12, 2008, Leonard Steinberg and Thomas Meade of Alaska Communications Systems Group, Inc. ("ACS"), and Karen Brinkmann and Elizabeth Park of Latham & Watkins LLP, met with Albert Lewis, Deena Shetler, Pam Arluk, Jay Atkinson, Doug Slotten, Bill Dever and Bill Kehoe of the Wireline Competition Bureau to discuss the implementation of the condition to the Commission's grant of forbearance relief with respect to certain enterprise broadband services that ACS propose a cost allocation associated with the provision of the broadband services for ratemaking purposes.[1]

In the meeting, ACS outlined its proposal for allocating costs between the enterprise broadband services for which the Commission forbore from pricing regulation and the special access services that remain subject to rate-of-return regulation. A summary of the proposal was

[1] *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended (47 U.S.C. 160(c)), for Forbearance from Certain Dominant Carrier Regulation of Its Interstate Access Services, and for Forbearance from Title II Regulation of Its Broadband Services, in the Anchorage, Alaska Incumbent Local Exchange Carrier Study Area*, WC Docket No. 06-109, Memorandum Opinion & Order, FCC 07-149 ¶ 108 (rel. Aug. 20, 2007) ("Forbearance Order").

distributed to the meeting attendees and is attached to this filing. In essence, ACS can appropriately apportion the revenue and costs through the allocation framework that is already in place in Parts 32, 36, 64 and 69 of the Commission's rules, with slight modifications to develop a separate "bucket" for costs and revenues associated with provision of the enterprise broadband services for which the Commission offered regulatory relief in the Forbearance Order. These requirements, in addition to the common line and traffic sensitive rate caps that the Commission adopted in the Forbearance Order, are sufficient to ensure that ACS does not manipulate the cost allocations among regulated and non-regulated services in a manner that would subsidize the non-regulated services. Furthermore, the Commission determined in the Forbearance Order that, given the competitive pressures that ACS faces with respect to enterprise broadband services, the Commission's enforcement authority and market forces are sufficient to protect consumers upon deregulation.[2]

The staff requested more detail on how ACS would allocate taxes and marketing expenses would be allocated for purposes of reporting the results of operations. Additionally, the staff asked whether ACS is currently required to treat Video Transmission Services as a separate sub-element within the special access category. ACS plans to respond to these inquiries specifically in a separate submission. Moreover, in accordance with the condition in the Forbearance Order, ACS plans to submit a detailed description of how it will allocate costs to regulated special access services and non-regulated enterprise broadband services and will seek approval of the proposal before taking advantage of the relief granted with respect to these broadband services.

* * * * *

If you have any questions, please feel free to contact the undersigned.

Respectfully submitted,

/s/

Karen Brinkmann
Elizabeth R. Park

cc: Albert Lewis
Deena Shetler
Pam Arluk
Jay Atkinson
Doug Slotten

2 Forbearance Order at ¶¶ 105, 107.

Bill Dever
Bill Kehoe

ACS of Anchorage

Forbearance from Dominant Carrier Regulation
WC Docket No. 06-109
August 20, 2007 Memorandum and Opinion

Enterprise Broadband Cost Allocation

Enterprise broadband services are currently categorized as Special Access services. They are rate-of-return regulated. Revenues and costs are aggregated with other special access services that will continue to be subject to dominant carrier regulation and subject to ROR monitoring. The specific services that would be removed from the ACS of Anchorage tariff and which would no longer be subject to dominant carrier regulation are:

Transparent LAN service
Transparent LAN service Lite
LAN Extension Networking Service
Video Transmission Services

The FCC has concluded that revenues and costs of enterprise broadband services would no longer be included in its interstate ROR calculations upon forbearance. Forbearance is conditioned upon ACS submitting, and the FCC approving, a cost allocation proposal that will ensure that revenues and costs are properly apportioned to enterprise broadband services, and regulated special access services are not unfairly burdened.

Overview

The goal of properly apportioning revenue and cost can be accomplished within the current cost and revenue assignment structures set forth in the FCC rules. Telecommunications revenue, expense, and rate base (including those associated with enterprise broadband) are accounted for within the current Part 32/64 accounting structure. Part 64 requirements minimize the opportunity to unfairly burden regulated LEC services. ACS of Anchorage ("ACSA") is operating under a rate cap for interstate common line and traffic sensitive services, which further restricts ACSA's ability to cross-subsidize enterprise services through the misallocation of costs. Part 32 accounts are apportioned between state and interstate jurisdictions using Part 36 jurisdictional separations rules to develop revenue requirements by jurisdiction. The interstate portion of the revenue requirement is then apportioned into rate elements using Part 69 to generate costs for individual access services (e.g, switching, common line, special access).

Part 69 generates a revenue requirement for the category of services classified as special access, and separate rate elements within the special access category. ACS would create an additional subcategory for broadband using the accounting and separations principles and processes already in place to remove broadband costs from the regulated special access revenue requirement.

Revenue
Revenue for the each of these services is recorded to account 32.5083 in the FCC Uniform System of Accounts. However, ACS maintains multiple product codes within its billing system to uniquely identify different services within the account. Each of the enterprise broadband services has its own product code that is currently mapped to 5083. ACS proposes changing the mapping of the product code of the affected enterprise broadband services from 5083 to 5280, thereby directly assigning the revenue from the enterprise broadband services to "non-regulated operating revenue" rather than to the regulated interstate special access account.

Rate Base
Transmission equipment used for the delivery of special access services is uniquely identified in ACS' continuing property records ("CPR") by the "separations code." ACS examines all capital work orders, and categorizes all transmission equipment that is added to its regulated rate base. Transmission equipment is directly assigned to both the appropriate jurisdiction and service category wherever possible. The transmission equipment used to provision enterprise broadband services is readily identifiable, and ACS has already been using unique separations codes for transparent LAN service. ACS will create any additional codes required to uniquely identify additional transmission equipment used to provide other enterprise broadband services.

Expenses
Expenses would continue to be coded as they are today. FCC Accounting and Separations rules do not allow direct assignment of expenses to individual telecommunications services. Rather, expenses are coded by the function that they serve (e.g., maintenance of transmission equipment, maintenance of cable & wire facilities, or performing accounting and finance functions). They are then apportioned to individual service categories as prescribed by Part 36 & Part 69. The cost accounting standards in Part 36 & 69 are adequate to assure a reasonable assignment of costs to each service regardless of how the service is priced.

Conclusion
Current FCC accounting and separations regulations can serve as a basis for ACSA's enterprise broadband cost allocations with only minor modifications. Requirements of Parts 32, 64, 36, and 69 coupled with common line and traffic sensitive rate caps will ensure that ACSA can't manipulate cost allocations to subsidize enterprise broadband services. Further, the Commission determined that, "[i]n such a deregulated environment, the Commission's enforcement authority, along with market forces, will serve to safeguard the rights of consumers."[1]

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