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

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| In the Matter of | ) | |
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| High-Cost Universal Service Support | ) | WC Docket No. 05-337 |
| | ) | |
| Federal-State Joint Board on Universal Service | ) | CC Docket No. 96-45 |
| | ) | |
| Lifeline and Link Up | ) | WC Docket No. 03-109 |
| | ) | |
| Universal Service Contribution Methodology | ) | WC Docket No. 06-122 |
| | ) | |
| Numbering Resource Optimization | ) | CC Docket No. 99-200 |
| | ) | |
| Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 | ) | CC Docket No. 96-98 |
| | ) | |
| Developing a Unified Intercarrier Compensation Regime | ) | CC Docket No. 01-92 |
| | ) | |
| Intercarrier Compensation for ISP-Bound Traffic | ) | CC Docket No. 99-68 |
| | ) | |
| IP-Enabled Services | ) | WC Docket No. 04-36 |

## REPLY COMMENTS OF ACS

### I. Introduction and Summary

ACS of Anchorage, Inc., ("ACS-AN"), ACS of the Northland, Inc. ("ACS-N"), ACS of Alaska, Inc., ("ACS-AK"), ACS of Fairbanks, Inc., ("ACS-F") and ACS Wireless, Inc. ("ACSW") (collectively, "ACS") file these reply comments regarding the FCC's Order on Remand and Report and Order and Further Notice of Proposed Rulemaking, issued November 5, 2008 in these proceedings.[1] Parties have filed initial comments on three proposals, contained at

[1] *In the Matter of High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Lifeline and Link Up; Universal Service Contribution Methodology; Numbering Resource Optimization; Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Developing a Unified Intercarrier Compensation Regime; Intercarrier Compensation for ISP-Bound Traffic; IP-Enabled Services,* WC Docket No. 05-337; CC Docket No. 96-45; WC Docket No. 03-109; WC Docket No. 06-122; CC Docket No. 99-200; CC Docket No. 96-98; CC Docket No. 01-92; CC Docket No. 99-

the FNPRM's Appendices A, B and C, that address reform of universal service. Proposals A and C also address changes in intercarrier compensation ("ICC") rules. All alternatives exempt Alaska, Hawaii and the US Territories from the proposed changes in rules.[2]

Several parties filed initial comments supporting the exemption,[3] and others recommended expanding the exemption to include tribal lands.[4] ACS generally concurs with GCI's comments confirming the importance of the Alaska exemption. ACS also agrees with Smith Bagley, Inc. ("SBI") and the San Carlos Apache Telecommunications Utility, Inc. ("San Carlos") that the FCC should exempt Tribal Lands from proposed rule changes. These areas also have been historically underserved and have very high cost operating conditions.

ACS agrees that the Commission should incorporate an exemption for Alaska providers into any long term universal service and ICC rule changes that reduce Universal Service Fund ("USF") support and ICC from current levels. Absent an exemption, alternatives A, B and C propose rules that will harm Alaska providers significantly more than providers in other states because of Alaska providers' unique operating conditions, and therefore are inappropriate reform and contrary to the public interest. The Commission has treated Alaska differently from other states in telecommunications regulation when Alaska's characteristics justify different policies.

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68; WC Docket No. 04-36, Order on Remand and Report and Order and Further Notice of Proposed Rulemaking (released November 5, 2008). ("*FNPRM*")

[2] *FNPRM*, Appendix A, ¶¶ 13, 191; Appendix B, ¶ 13; Appendix C, ¶¶ 13, 186.

[3] *See In the Matter of High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Lifeline and Link Up; Universal Service Contribution Methodology; Numbering Resource Optimization; Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Developing a Unified Intercarrier Compensation Regime; Intercarrier Compensation for ISP-Bound Traffic; IP-Enabled Services,* WC Docket No. 05-337; CC Docket No. 96-45; WC Docket No. 03-109; WC Docket No. 06-122; CC Docket No. 99-200; CC Docket No. 96-98; CC Docket No. 01-92; CC Docket No. 99-68; WC Docket No. 04-36 (*"Comprehensive Reform Dockets"*) Comments of General Communication, Inc. (Nov. 26, 2008) (*"Comments of GCI"*) and Comments of Sandwich Isles Communications (Nov. 25, 2008).

[4] *See Comprehensive Reform Dockets,* Comments of Smith Bagley, Inc. (Nov. 26, 2008); Comments of the San Carlos Apache Telecommunications Utility, Inc. (Nov. 26, 2008); *see also* Comments of the National Tribal Telecommunications Association (Nov. 25, 2008).

Exempting Alaskan providers from reductions in universal service support and intercarrier compensation is well justified based on Alaska's unique characteristics, history as a traditionally underserved area, and extremely high costs of service.

Also, the Commission should implement the Alaska Native Region/Tribal Land exception to the Competitive Eligible Telecommunications Carrier ("CETC") cap as soon as possible.[5] Since the interim cap is in effect and the exception has been delayed, Alaskan and tribal land providers are not able to elect to receive existing levels of support as the FCC intended. The FCC should now put its interim policy in effect to address Alaska's unique operating conditions.

## II. Alaska's Unique Attributes Have Justified Different Regulatory Treatment for Providers

The Commission has treated Alaskan providers differently from providers operating in the continental United States ("CONUS") in a number of regulatory decisions. In its A, B and C proposals,[6] the Commission cites orders from the Alaska Rates and Services Integration proceeding,[7] and the 17/24 GHz Broadcasting-Satellite Service ("BSS") proceeding,[8] to show that Alaska's very different attributes and related cost issues have justified treating Alaska

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[5] *In the Matter of High-Cost Universal Service Support; Federal-State Joint Board on Universal Service,* Order, WC Docket No. 05-337, CC Docket No. 96-45 (released May 1, 2008). ("*CETC Cap Order*")

[6] *FNPRM*, Appendix A, ¶¶ 13, 191; Appendix B, ¶ 13; Appendix C, ¶ 13.

[7] *In the Matter of Integration of Rates and Services for the Provision of Communications by Authorized Common Carriers between the Contiguous States and Alaska, Hawaii, Puerto Rico and the Virgin Islands,* Supplemental Order Inviting Comments, CC Docket No. 83-1376, (January 3, 1989). ("*Rate Integration Order*") (Commission offered two proposed Alaska market structure arrangements that would harmonize integrated long distance rates within a competitive market structure in Alaska.)

[8] *In the Matter of the Establishment of Policies and Service Rules for the Broadcasting-Satellite Service at the 17.3-17.7 GHz Frequency Band and at the 17.7-17.8 GHz Frequency Band Internationally, and at the 24.75-25.25 GHz Frequency Band for Fixed Satellite Services Providing Feeder Links to the Broadcasting-Satellite Service and for the Satellite Services Operating Bi-directionally in the 17.3-17.8 GHz Frequency Band,* Report and Order and Further Notice of Proposed Rulemaking, IB Docket No. 06-123 (released May 4, 2007). ("*BSS Order*") (Commission adopted special service rules for Alaska and Hawaii to ensure that 17/24 GHz BSS licensees, to the extent they provide DBS-like services, would provide service to Alaska and Hawaii comparable to that provided to Lower 48 locations unless service was not technically feasible or not economically reasonable from the authorized orbit location.)

differently than other states. Additionally, the Commission exempted Alaskan CETCs from the interim CETC USF cap adopted May 1, 2008.[9] Thus, particularly regarding universal service rules, the Commission has concluded that Alaska conditions require special treatment, and that universal service support reductions applicable in other states are not appropriate for Alaskan carriers. Alaska's special attributes include its dispersed population base, its preponderance of small, often geographically isolated and off-the-grid communities that are very costly to serve, its historically low telephone penetration rates, and generally, its unique history as an underserved area.[10]

Alaska's unique demographic, climactic and geographic conditions continue to impact the cost of providing telecommunications services significantly.[11] A vast state, Alaska still contains many isolated rural communities. While nearly one half the residents live in Anchorage, only Fairbanks and Juneau have more than 10,000 residents.[12] Sixty-two percent of Alaskan communities have 500 or fewer residents, and almost 15% have less than 100 residents.[13] Alaska's most rural communities are separated by three immense mountain ranges, rain forests, fjords, and treeless arctic expanses. These isolated communities are vulnerable to harsh climactic conditions, are not accessible by road, and have no wireline connections to the rest of the world.

For many years, Alaska's population had relatively little telephone service, and where service was available in remote rural areas, it was quite primitive. The US military offered limited commercial long distance telephone service over the White Alice Communications

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[9] *CETC Cap Order*, ¶ 32.
[10] *Rate Integration Order*, ¶ 7; *BSS Order*, ¶ 47.
[11] *See e.g.* Comments of GCI at pp. 5-6.
[12] *See* Table 4: Annual Estimates of the Population for Incorporated Places in Alaska, Listed Alphabetically: April 1, 2000 to July 1, 2007, Population Division, U.S. Census Bureau (release date July 10, 2008). *Available at* http://quickfacts.census.gov/qfd/states/02000lk.html - Population Estimates: Places in Alaska listed alphabetically.
[13] *Id.*

System ("WACS"), a tropospheric-scatter radio communications system constructed by the federal government in the 1950's to provide interstate long distance links for defense communications in Alaska. Fewer than half of "rural" households had phones available in 1960 and most communities off the road system did not have any telephones.[14] While villages were largely served by a series of high frequency land radio stations, service was often impaired due to ionospheric disturbances typical of the auroroal zone.[15]

RCA Alaska Communications ("RCA") made improvements when it purchased the long distance network in 1971. RCA committed to put at least one community phone in 142 Bush communities that had no service as of 1970,[16] thereby establishing telecommunications service to each village of more than 25 people.[17] RCA's plans were hindered, however, by issues such as weather and unreliable electric power.[18] RCA was able to install marine telephone systems in about 50 communities during the first half of the 70's, but communities often shared one channel and the call completion rate was low.[19] It was not until 1975 when the State of Alaska bought 100 satellite earth stations to serve bush communities that service increased. RCA installed only one telephone in each village, and provided a push-to-talk circuit to the village health aide.[20] By the late 1970's, 45 communities off the highway system had phone service for the first time via

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[14] Institute of Social and Economic Research, University of Alaska, Anchorage, Research Summary, RS No. 59 (Dec. 1997). ("*ISER Summary*")
[15] "Telecommunications in Alaskan Villages", Alex Hills and M. Granger Morgan, Science, Vol. 211, 16 January 1981, at p. 241. ("*Alaskan Village Telecommunications*")
[16] *ISER Summary* at p. 3.
[17] AT&T Company Profile, *available at* http://www.attalascom.com/about/profile.html. (Last viewed December 1, 2008).
[18] *Alaskan Village Telecommunications* at p. 241.
[19] *ISER Summary* at p. 3.
[20] *Alaskan Village Telecommunications* at p. 242.

satellite.[21] These installations provided the basis for local exchange service in the communities, as the earth stations could be modified to provide two or more circuits.[22]

Between 1980 and 1989, new RCA Alascom owner Pacific Telecom, Inc. improved or installed service in more than 135 rural locations.[23] As a senior state commission staffer concluded, local village exchange service was not really economically feasible, however, without subsidies.[24] The "climactic, social, economic and physical realities of village operation" made it doubtful that local companies could be self sustaining either through local service revenue or increased operating efficiencies.[25]

Through the 80's, local exchange service finally became more widespread, but still, penetration lagged far behind the continental states. Only 87% of Alaska households had telephone service as recently as 1988.[26] Alaska is still catching up in newer telecommunications services. Providers are still building out initial wireless networks, and the high costs of providing broadband have made it more difficult to deploy.

## III. Alaska's Unique Attributes Substantially Increase Providers' Operating Costs

Alaska's unique demographic, climactic and geographic conditions make it extremely costly to serve. Generally, providers serve areas with low population densities, and must spread costs over a smaller customer base. Providers' costs of repair and maintenance are much higher due to harsh climate conditions, extraordinarily long distances between telecommunications plant and facilities, and geographic obstacles. Providers' networks must be built with higher levels of redundancy and reliability to withstand Arctic temperatures, high wind conditions, or

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[21] *ISER Summary* at p. 3.
[22] *Alaskan Village Telecommunications* at p. 242.
[23] *ISER Summary* at p. 3.
[24] *Alaskan Village Telecommunications* at pp. 244-245.
[25] *Id.* at p. 244.
[26] *Rate Integration Order* at ¶ 7.

other adverse weather conditions. Providers use costly satellite transport for transmission of calls between exchanges and central switches to cover vast areas that are so undeveloped, they lack roads and wireline transport facilities.

Deploying advanced services such as broadband Internet access has been particularly challenging in these conditions. To offer rural broadband service, a provider generally must transport the traffic from a rural village location through satellite facilities to a central switching location such as Anchorage, Fairbanks or Juneau, and from there, through interexchange facilities to the nearest Internet peering location, Seattle. Satellite transponder costs are extremely expensive for small communities. For example, it costs about $12,000 - $13,000 per month per village in T-1 transport costs alone (including satellite transponder costs) for ACSW to offer broadband Internet access service in the ACS-N Sitka study area. That area includes 54 remote non-contiguous villages of very small population.[27] For these 54 villages, it would cost ACSW approximately $650,000 - $700,000 per month just to provide interexchange transport for wireless broadband Internet access. Retail broadband Internet service revenues from these small villages, even supplemented by universal service support, would not come close to covering such extremely high provisioning costs.

Generally, ACSW's experiences in serving a vast calling area in difficult terrain and climate conditions illustrate how these challenges create such high operating costs. ACSW's service area encompasses mountain ranges, rain forests, glaciers, tundra and coastal areas -- all with different climates, geography and demographics. The ACSW network extends from

[27] ACS-N's Sitka study area is extremely large, encompassing 54 tiny communities (not including Sitka) dispersed throughout Southeast and Southcentral Alaska, and the Bering Sea. These villages include Akhiok (pop. 33), False Pass (pop. 46), Nondalton (pop. 196), Port Graham (pop. 134), Egegik (pop. 64), Karluk (pop. 27), Kasaan (pop. 63), Northway (pop. 81), St. George in the Bering Sea (pop. 114), and Tenakee Springs (pop. 102). *See* State of Alaska, Community Database Online, *available at* http://www.commerce.state.ak.us/dca/commdb/CF_BLOCK.cfm (last viewed December 1, 2008). Population statistics are 2007 DCCED Certified Population except Port Graham, Karluk and Northway, which are 2007 Estimated Populations, not certified.

Ketchikan in Southeast to Barrow and Deadhorse on the North Slope to Homer in Southcentral, an in-state area of approximately 325,000 square miles.[28]

In Southeast Alaska for example, ACSW's repair and maintenance costs are extraordinarily high because a number of sites are in inaccessible locations such as mountaintops, and other remote areas off the road system. Seven Southeast sites were built as part of the original WACS and are so remote and inaccessible that they never would have been built if the federal government had not needed the links for military communications. For travel generally to remote Southeast sites, ACSW must fly technicians on a commercial flight to Juneau or Ketchikan and then use an air charter (usually a helicopter) to access the remote towers. Under the best of circumstances, travel time takes three days to each site. ACSW performs these maintenance visits for each site approximately four times per year.

The ACS local companies face similar problems in their remote service areas. For example, ACS-N recently had to make an emergency safety-related repair to stabilize aging poles carrying its local distribution lines in Koyukuk Village in Interior Alaska. Koyukuk was founded as a seasonal fish camp for Koyukon Athabascans and later housed a U.S. military telegraph station after the Alaska Purchase. It is predominantly a native community of approximately 100 people located on the Yukon River, and is only accessible by air or barge. Consequently, ACSN had to transport a backhoe, a bucket truck, and freight (including cable) by barge to Koyukuk at a cost of $146,000. A large portion of this cost covered airplane travel, barge transport, and lodging in the remote area. This is just one recent example of an extraordinarily high cost repair.

As these examples illustrate, Alaska's unique geographic, climactic, and demographic conditions greatly increase the cost of providing telecommunications services in the State.

[28] ACSW's service is not continuously available throughout this entire area.

## IV. The FCC Should Exempt Alaska Providers from Rule Changes that Reduce Universal Service Support or Local Carriers' Intercarrier Compensation

The FCC should exempt Alaska from rules changes that reduce providers' universal service support or local carriers' intercarrier compensation. Alaska's unique geographic, demographic, and climactic factors significantly impact the cost of providing telecommunications services. Alaska providers need to maintain existing levels of universal service support and ICC to provide service under these extreme conditions.

Absent an exemption, universal service rule changes in Proposals A, B, and C would harm Alaska providers disproportionately and impose too much risk to universal service goals. For example, Proposals A and C eliminate support for ILECs if they have not deployed broadband throughout their service areas in five years.[29] As described above in Section III, Alaska ILECs and wireless CETCs must pay extraordinarily high satellite transmission costs to carry broadband Internet traffic from rural locations, though central switching locations and then down to Seattle. No other state's providers must resort to such extremely high cost satellite transmission to bring calls to Internet peering locations outside the state. Additionally, Proposal B would potentially eliminate providers' support altogether if they are not the lowest bidder in a reverse auction. This result would be particularly draconian for Alaska providers who may have designed infrastructure to address unique operating conditions in remote rural communities. Auctions are not appropriate for such small remote communities where there may not be sufficient bidders to make the auction viable. Also, experience operating in unique Alaska conditions is critical to providing reliable service.

[29] *FNPRM,* Appendix A ¶ 12; Appendix C, ¶ 12.

## V. The Commission Should Implement its Interim Alaska CETC Policy Immediately

The FCC has already decided that Alaska's unique operating conditions and history as an underserved area require exempting CETCs serving Alaska Native Regions from an interim cap on USF support.[30] Delays in implementing the exception have prevented these providers from opting into the exception, however. While the Commission is considering continuing its policy of different treatment for long term reform, it should be sure to put its interim policy in effect as recommended by ACS, GCI and MTA, three of Alaska's major providers.[31] The continuing uncertainty limits the ability of CETCs in Alaska to plan for expanded and advanced services and maintain their existing operations as the FCC originally intended.

## VI. Conclusion

For these reasons, applying an exemption to maintain existing levels of universal service support for CETCs and Alaska ILECs, and existing levels of ICC for ILECs is reasonable based on their different operating circumstances, and necessary to fulfill Congress's universal service goals. The FCC should implement its decision allowing Alaskan CETCs to opt into uncapped support as soon as possible, so that Alaskan CETCs can continue to expand services and maintain existing systems as the FCC originally intended.

Dated this 22nd day of December, 2008.

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[30] *CETC Cap Order*, ¶ 32.

[31] *See* Letter to Chairman Martin from Leonard Steinberg, ACS, Tina Pidgeon, GCI and Greg Berberich, MTA, WC Docket No. 05-337, CC Docket No. 96-45, dated Oct. 27, 2008. Comments of GCI at p. 3.