

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
Connect America Fund)	WC Docket No. 10-90
)	
A National Broadband Plan for Our Future)	GN docket No. 09-51
)	
High-Cost Universal Service Support)	WC Docket No. 05-337

COMMENTS OF ALASKA COMMUNICATIONS SYSTEMS

Alaska Communications Systems (“ACS”)¹ submits these comments in response to Public Notice DA 10-846 issued by the Federal Communications Commission (“FCC” or “Commission”) on May 13, 2010 seeking comments on the Universal Service Reform Notice of Inquiry (“NOI”) and Notice of Proposed Rulemaking (“NPRM”).

I. INTRODUCTION AND SUMMARY

ACS offers the following summary in response to the Commission’s NOI/NPRM regarding proposed policy and technical changes to the federal Universal Service Fund (“USF”):

- Alaska continues to present distinctive challenges and needs relative to federal USF policies designed for nationwide application.
- While in need of reform, current federal high-cost mechanisms have successfully achieved the Commission’s policy goals in Alaska and should not be abandoned.

¹ Alaska Communications Systems in this proceeding represents four local exchange carriers, ACS of Alaska, Inc., ACS of Anchorage, Inc., ACS of Fairbanks, Inc., and ACS of the Northland, Inc., as well as ACS Long Distance, Inc., ACS Internet, Inc., and ACS Wireless, Inc. Together, these companies provide wireline, wireless and other telecommunications, information, broadband, and network services to consumer, business and enterprise customers in the State of Alaska and beyond using its statewide and interstate network.

- Eliminating or substantially curtailing high-cost support in Alaska will jeopardize the provision of basic telephone service.
- The use of cost proxy models and reverse auctions will not achieve the FCC's goals given Alaska's unparalleled situation.
- The proposed Connect America Fund and Mobility Fund ("CAF/Mobility") are unlikely to provide the needed investment incentives in extremely high cost and predominantly rural markets like those found in Alaska.
- As it reforms the USF program, the FCC should continue to provide funding for three to four providers in each Alaska market.
- In Alaska, USF reform should address both traditional voice services and evolving broadband services, including support for backhaul/transport.
- Federal policy should favor competition over the re-creation of government-sponsored monopolies that will ultimately require government regulation to protect consumer interests.
- The FCC should defer application of the policy changes outlined in the NOI/NPRM in Alaska until such time as 95% of Alaskan communities have access to affordable terrestrial backhaul. The Commission should periodically address Alaska's progress in meeting this target.

II. COMMENTS

Alaska is Unique

ACS and other representatives from Alaska have consistently advised the Commission of the special characteristics of Alaska that impact the cost of providing telecommunications services. Not much has changed in that regard. Alaska has a small and geographically

dispersed population, extremes of terrain and temperature, and dramatic distances from the contiguous 48 states of the United States, as well as within the state. To name just a few examples: Most communities are still sited off the road system as well as off the power and communication grids. Many places are only accessible by plane, helicopter, boat, or snowmobile. Hostile weather conditions, vast distances to serve, inaccessible terrain and other challenges to service provisioning are the norm in Alaska and not typically encountered in other parts of country to this extreme. Alaska continues to confront abbreviated construction seasons, and the lack of commercial power at many rural sites requires providers to ship in generators and fuel. Technicians must travel far distances to remote locations for maintenance and response to system outages, often relying on float planes or chartered transportation where roads and scheduled air service do not exist. Many of Alaska's most rural locations have experienced historically low penetration rates and an unmatched history as unserved or underserved areas for broadband applications. Many rural Alaska locations and virtually all "bush" locations² depend on satellite for both voice communications and broadband/Internet access backhaul. The FCC's current "Tribal Lands" exception to the CETC cap³, which includes Alaska Native Regions, is indicative of the FCC's recent acknowledgement of Alaska's distinguishable characteristics and needs.

Current High-Cost Mechanisms Have Been Critical to Achieve Universal Service in Alaska

For years, Alaska has depended on universal service support to ensure basic telecommunications at affordable rates. In the face of exceedingly high costs of service and unparalleled provisioning challenges, the delivery of basic telephony services in Alaska has

² "Bush locations" refer to exceptionally remote communities with very small populations – some with fewer than 100 year-round residents.

³ CETC cap refers to the FCC's policy of capping USF support on a per-state basis for all Competitive Eligible Telecommunications Carriers. Given its singular circumstances, Alaska was excepted from that policy by the Commission.

expanded, but would not have been possible without the availability of sufficient federal universal service support. At this time, even some of the most remote villages in Alaska have both local exchange services and access to (typically satellite-based) long distance services.

Many Alaska communities now have the important benefits associated with competitive service providers. In places that could not economically be served by even one provider without USF support, competition has been made possible due to the policy of funding multiple carriers in designated markets. As a result, Alaskans now have a broad spectrum of comparable services offered at affordable rates. Rural consumers have a choice of providers that offer video, wireless, health and public safety access and mobile voice and Internet access. For the first time, some rural Alaskans have the health and safety benefits of being able to call for help when they leave their homes at 50 degrees below zero in winter to travel via snowmobile. Those benefits are also now available to some rural Alaskans when they embark on river travel by boat to access fish camps during the summer. Rural competitive services are typically offered at rates that are comparable to those found in urban markets. In fact, the mere availability of competitive choice constitutes a form of urban/rural parity. While the FCC's broadband goals are clearly laudable, they should not be pursued at the expense of retreating from the successful delivery of basic services in Alaska.

Eliminating High Cost Support Will Have Devastating Effects in Alaska

As noted, the Commission's historical USF policies have been necessary to achieve Congress's universal service goals in Section 254 of the Telecommunications Act of 1996. Changes to those policies – changes that might reduce or even eliminate high-cost funding for Alaska – will quickly reverse those prior accomplishments. The extremely high cost of service in Alaska makes it impossible for even one carrier to bring telecommunications

services to most rural parts of the state without federal support. In the absence of multiple-provider support, competitive service in these locations is simply out of the question. Elimination or even significant reduction of USF support places all rural services in jeopardy.

Most of Alaska also lacks adequate middle-mile backbone facilities. It is unlikely that these facilities will be in place any time soon, yet they remain essential to facilitate substantial deployment of affordable broadband.⁴ Funding, design and actual construction of these facilities within the 10-year transition period the Commission has built into its plan may simply not be possible. It is, therefore, ill advised to eliminate existing support mechanisms without the availability of reasonable substitutes. If legacy support mechanisms begin to wind down before alternative broadband services are in place, consumers will likely face diminished services or worse, the complete loss of service. The Commission should not abandon the progress its historical policies have achieved in Alaska without having a substitute immediately available.

Proxy Models and Reverse Auctions Will Not Work in Alaska

In addition to its other distinguishing characteristics, Alaska also fails to provide a reasonable environment for applying cost proxy models or reverse auctions to achieve the FCC's goals. Attempts to geo-code Alaska will face immediate difficulties. Alaska has no counties. Alaska does have some defined political subdivisions, but they are few and often not contiguous, but rather separated by significant distances. Even the use of census blocks is problematic given Alaska's small and geographically dispersed population.⁵ Complicating

⁴ Even with the FCC's modest rural target speed of 4mbps down/1mbps up, there is a need for substantial construction of terrestrial facilities and expansion of satellite capacity to create the backhaul capability that will be necessary in Alaska. The cost of transport, particularly satellite-based transport, as an element of the Internet provider's overall cost structure remains a significant and unresolved obstacle.

⁵ This is an issue currently under consideration by the team that is tasked with producing an interactive broadband map for Alaska as required by the American Recovery and Reinvestment Act.

matters further, Alaska's study areas include vast gaps between locations where no service at all is available. Service areas are not contiguous resulting in infrastructure separations unlike the fairly ubiquitous and continuous networks found in other parts of the nation. Alaska continues to be unparalleled in its lack of terrestrial middle-mile facilities. Satellite continues to be the predominant means of connecting the more than 200 rural locations throughout the state with each other, with mid-location hubs and with urban destinations.

ACS has experienced first-hand the irrational result of applying national cost proxy models to Alaska conditions. The FCC's Hybrid Cost Proxy Model ("HCPM") was used by the state regulatory commission to establish unbundled network element ("UNE") pricing for local competition in Anchorage.⁶ Not only did the model fail for all the reasons mentioned, but it resulted in completely artificial prices that did not reliably reflect network costs. This particular model was so flawed that the parties using it were able to generate wildly divergent results making the adjudication of reasonable pricing impossible and prompting protracted litigation.⁷ Perhaps the greatest failing of cost proxy models is that their use undermines investor confidence. Investors are simply unwilling to come forward with needed financing when ongoing USF support decisions are driven by unreliable cost proxy model results. Even if it works for the rest of country, it won't work for Alaska given its unique provisioning context. Embedded costs remain a much better way to predict the actual cost of prospective network construction and operation and to incent providers to build and operate broadband networks. Applying a national USF cost proxy model to Alaska is destined to fail to produce economically rational results.

⁶ See RCA Docket U-96-089.

⁷ At hearing, some experts testified that the proper rate for an unbundled loop should be approximately \$25/loop/month while other experts using the same model testified the rate should be approximately \$5/loop/month.

Of equally dubious value is the use of reverse auctions to determine which entity will receive prospective broadband financial support. It is unclear whether auctions will be one-time or periodic events, or whether auctions will be used to support both capital investment and operating expense. If used only once, the result will be that the government will create an unregulated monopoly provider for broadband services. Further, if there is to be only a single auction, providers will be motivated to drive cost estimates low – even possibly below long run marginal costs – to avoid being run out of business by a subsidized competitor. The ability of any provider to bid prices down to zero may be good for containing the size of the USF, but is clearly poor public policy as it may not result in successful long-term provider of broadband service. Providers may be willing to serve a market at a loss with the intent of recovering losses via future support funding and, where necessary, via monopoly pricing. In the interest of consumer protection, this outcome is likely to force the FCC's hand to impose broadband rate regulation – a direction the FCC has publicly stated it does not intend to take.

As noted, the uncertainty of the reverse auction outcome will chill broadband investment. The NOI/NPRM is unclear how such auctions will be used. Will they determine initial build out or address operations or both? ACS has addressed the negative impacts of auctions that are held only once and result in government-sanctioned monopoly providers. If, on the other hand, auctions are periodic, they will impede any investor willingness to put dollars forward where there is substantial uncertainty that the initial provider will retain the market after a subsequent auction. Simply put, reverse auctions supporting a single provider fail to provide the sufficient and sufficiently predictable support outcomes needed to motivate investors to come forward. Once again, reverse auctions may be an effective way to manage

the size of universal service support, but they will impair investor confidence and are not the best way to get comparable broadband services to rural Alaska.

Connect America Fund/Mobility Fund

In addition to its comments on cost proxy models and reverse auctions, ACS is also concerned about the application of the proposed CAF/Mobility Fund in Alaska. It appears from the NOI/NPRM that satellite backhaul may not qualify for CAF/Mobility support. Due to Alaska's considerable dependence on satellite services, it is unclear whether CAF/Mobility support will be available at all for Alaska. This result would disproportionately impact only one state – Alaska – because Alaska is the only state where service is regularly provided between communities by satellite. The Commission is urged to clarify this part of its proposal and to make its ultimate determination as inclusive as possible.

Even if the CAF/Mobility Fund can support Alaska facilities, it may be inadequate to promote construction and operation of broadband networks in rural Alaska. First, the support mechanisms need to be both sufficient and sufficiently predictable to support even a single provider and there is too much uncertainty about the CAF/Mobility proposals to date to satisfy this need. The FCC's modest speed target for rural locations notwithstanding,⁸ CAF/Mobility support and potential network revenue streams may be insufficient to incent the additional private investment needed to build out broadband facilities. This is especially true when considering the cost of replacing satellite backhaul with terrestrial infrastructure. Second, as proposed, support will go to only one provider. If so, the result in Alaska will be a government-sanctioned unregulated monopoly provider of broadband services. The FCC will either need to regulate broadband rates or allow consumers to suffer the consequences of

⁸ 4mbps down/1mbps up.

monopoly pricing. Alternatively, providing support for multiple broadband providers will foster market pricing and avoid the undesirable implications of rate regulation.

Alaska Should Continue to Receive USF Support for Multiple Broadband/Voice Providers

ACS recommends that Alaska continue to be eligible to receive federal USF support for multiple broadband/voice providers. Unlike many lower 48 locations, Alaskans are not inundated by a dozen or more providers. Even Alaska's largest cities have no more than three or four providers. Rural locations have even fewer providers. Given Alaska's well documented need for federal USF and the additional rate, service and "choice" benefits Alaska consumers receive from competitive services, the Commission should opt to continue to support three to four competitive companies per study area in Alaska. Competitive support should be technologically agnostic.

Local exchange competition is the national policy.⁹ The same should be true for broadband service. As noted, in the absence of multiple-carrier support, competition in virtually all of rural Alaska would not be possible. The only way to continue to effectuate the national policy regarding local and broadband competition, and to facilitate rural/urban parity with regard to competitive choice, is to maintain support for multiple providers in Alaska. The Commission should continue this policy.

Federal USF Policies Should Support Both Voice and Broadband Services in Alaska

With the current dearth of viable middle-mile broadband infrastructure, there is really no affordable alternative to legacy voice services. Given the demonstrated need to maintain support for legacy voice services in Alaska and to ensure that Alaska is a full participant in the broadband revolution, USF support should be provided for both voice and broadband

⁹ Telecommunications Act of 1996.

services in Alaska. In the future, Alaska will be able to transition to a fully functional broadband environment where voice services are subsumed into the array of broadband services. Until then, legacy voice networks will continue to provide a critical link that keeps Alaska's small and geographically dispersed communities connected.

The appropriate strategy for Alaska is to continue to maintain an adequate level of support for existing voice providers¹⁰ and, at the same time, provide needed new support for the deployment and operation of high-speed broadband networks. Included in the latter is support for the backhaul/transport component of the broadband network – both terrestrial and satellite based. As mentioned by numerous commenters, the single most critical element of broadband evolution in Alaska is the availability of adequate, reasonably priced backhaul capacity. If Alaska is to have comparable services to the rest of the nation, and not be cordoned off with a 49th State Broadband Divide, it is essential that its broadband support be sufficient to cover backhaul facilities.

Federal Policies in Alaska Should Favor Competition Over Monopoly Services

ACS has already described the significant consumer benefits that are made possible in Alaska through telecommunications competition. This result is only achievable by virtue of the national policy that promotes competition and the implementing strategy that financially supports multiple service providers. In Alaska, the loss of support for multiple providers will make competition infeasible in many areas and could even require monopoly-era rate regulation for broadband services. This may not be an outcome that will routinely be found throughout the country, but it is definitely one that can be predicted for Alaska. In the absence of funding three to four competitive providers in Alaska, the FCC may have no other

¹⁰ Ongoing USF funding for existing voice providers should be technologically neutral.

option than to impose arcane regulatory constructs and obligations on the “surviving” provider once it becomes an unregulated monopoly.

To be clear, ACS does not advocate the imposition of economic regulation on otherwise unregulated broadband providers. However, given Alaska’s unique and delicately balanced competitive structure, the potential for unacceptable monopoly outcomes must be pointed out. Instead of allowing such a result to occur, the FCC can avoid it by continuing to support competitive service provision in Alaska. The Communications Act establishes as a central goal of the USF that reasonably comparable services be made available to all Americans at reasonably comparable rates (*i.e.*, the urban/rural rate parity objective).¹¹ This parity objective must apply to competitive choice, as well as voice and broadband services. In Alaska, the best way to achieve that goal is by supporting three to four competitors. For purposes of administrative simplicity and efficiency, ACS also endorses the concept of providing support to all competitors on the basis of the support authorized for the incumbent local exchange company (“ILEC”).

The Alaska Goal - 95% of all Communities Connected to Terrestrial Backhaul with Prices Comparable to the Contiguous 48 States

In light of the foregoing, and subject to adding support for broadband facilities and services, ACS recommends that the FCC defer any changes to current high-cost fund policies and practices in Alaska until such time as 95% of Alaska communities have access to terrestrial backhaul facilities at rates comparable to those found in the contiguous 48 states. A delay in application of the FCC’s proposed USF changes in Alaska will provide the time needed for the extensive and costly build-out of broadband facilities that will be needed before the transition away from existing voice support can begin. This Alaska transition

¹¹ See 47 U.S.C. §254(b)(3).

period will also ensure that critical services and the benefits associated with competition can be preserved while broadband infrastructure is being deployed. Periodically during the transition cycle, the Commission should re-visit the progress in Alaska and determine whether additional action is needed to enhance broadband deployment. Upon achieving “95% terrestrial backhaul” objective in Alaska, the FCC can begin to implement its national USF reform policies in Alaska.

III. CONCLUSION

ACS asks the Commission to bring the issues in this proceeding to a prompt and definitive resolution. During the pendency of this matter, capital investment will be scaled back while providers and investors wait for a greater certainty about the exact nature of USF reform. The promulgation of the Commission’s rules itself creates uncertainty and a disincentive to invest.

ACS again urges the Commission to preserve the substantial benefits Alaska has realized from the USF support it has received over the years while simultaneously including Alaska in the broadband revolution. Alaska’s unique circumstances and characteristics justify a modified approach with the ultimate goal of bringing Alaska into full broadband participation with the rest of the states.

Respectfully submitted on this 12th day of July, 2010.

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