

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
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing a Unified Inter-carrier Compensation Regime	)	CC Docket No. 01-92
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Lifeline and Link-Up	)	WC Docket No. 03-109
_____	)	

**COMMENTS OF ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.**

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### **Executive Summary**

ACS believes that the overall approach advocated in the ABC Plan would fail to serve the public interest in Alaska, and thus would not accomplish the Communications Act's mandate to ensure that all Americans have reasonably comparable access to reliable and affordable telecommunications and information services, including advanced services. In particular, the proposed ABC Plan would:

- Deny needed inter-carrier compensation ("ICC") revenues and universal service funding ("USF") to areas that would not have broadband (or narrowband) facilities *but for* those revenues, without providing the affected Alaska service providers a meaningful opportunity to replace those revenues;
- Fail to guarantee any customer benefit in Alaska, either through new or improved services or through lower prices for existing services;
- Discourage deployment of competitive networks in Alaska;
- Produce windfall benefits for the largest carriers in the country, AT&T and Verizon, when they terminate traffic in Alaska; and
- Fail to provide any incentive for long-term investment in Alaska.

Historically, consumers have greatly benefitted from robust competition and long-term investment in Alaska, made possible in part by federal USF support.

However, the unique constraints of the Alaska market impose strict financial limits on investing in uneconomic areas without USF or some comparable form of support.

ACS proposes herein several Alaska-specific USF and ICC reforms designed to benefit Alaskan consumers by promoting continued and additional infrastructure investment in the state, and taking advantage of the unique competitive environment enjoyed by consumers today. Only by providing more support in rural high-cost areas

can the FCC give Alaska service providers an incentive to deploy infrastructure into areas where broadband deployment has not been economically feasible to date.

Therefore, ACS proposes:

- That the FCC forego the use of a national cost model in Alaska, and instead create a “Target Alaska Fund” (“TAF”) in the amount of \$219 million per year (the “TAF budget”), which is the approximate total high-cost support disbursed to ETCs in Alaska in 2010;
- That TAF be provided to ILECs for at least ten years in the amount per study area that they received in high-cost support, including interstate common line support (“ICLS”) and high-cost loop support (“HCLS”), in 2010, subject to certain reductions in case TAF demand exceeds the TAF budget;
- That CETC high-cost support be frozen at 2010 per-line levels and disassociated from ILEC support;
- That reasonable provision should be made for anticipated future growth in CETC connections through an incremental shift of support from non-rural to rural areas, and reductions in the highest per-line support amounts as necessary to accommodate growth, subject to specific limits on the reductions for existing ETCs;
- That the FCC require, for continued eligibility for support to any particular wire center after January 1, 2012, that each ETC commit to deploying infrastructure within 10 years sufficient to support both broadband and voice capability to at least 75 percent of service locations in the wire center, with an interim milestone of 65 percent of connections within five years, except in locations where affordable backhaul transport capability is unavailable;
- That if the Commission determines that additional Connect America Fund (“CAF”) support is needed in the state, this support should be added to the TAF, subject to the same rules articulated herein;
- That the FCC exempt Alaska from reliance on satellite or other alternative technology in very high-cost areas, and continue supporting existing terrestrial-based ETCs who have the track record and know-how to deliver fixed and mobile broadband services in Alaska’s uniquely challenging environment;

- That the only ICC changes the FCC orders in Alaska would be to bring intrastate traffic-sensitive (“TS”) rates into parity with the interstate price cap average TS target rate of \$0.0095;
- That TAF have no effect on whether any ILEC qualifies for an access replacement mechanism (“ARM”); and
- That the Commission acknowledge the special circumstances in Alaska, including that local rate rebalancing already is in progress, and exempt Alaska from any federal rate benchmark.

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**COMMENTS OF ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.**

Alaska Communications Systems Group, Inc., on behalf of its operating subsidiaries (“ACS”),<sup>1</sup> hereby responds to the Federal Communication Commission’s (“FCC” or “Commission”) *Further Inquiry Into Certain Issues In the Universal Service-Intercarrier Compensation Transformation Proceeding*, FCC Pub. Notice, DA 11-1348 (rel. Aug. 3, 2011) (“*Public Notice*”).

<sup>1</sup> In this proceeding Alaska Communications Systems Group, Inc. 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 and wireless telecommunications, information, broadband, and other network services to residential, small business and enterprise customers in the State of Alaska and beyond, on a retail and wholesale basis, using ACS’s statewide and interstate facilities.

### **Introduction**

In response to the Commission's February 9, 2011 Notice of Proposed Rulemaking in the above-captioned dockets,<sup>2</sup> ACS filed extensive comments on April 18, 2011 ("ACS Comments") and reply comments on May 23, 2011 ("ACS Reply"). In those pleadings, ACS explained in some detail the unique challenges posed by constructing infrastructure and providing reliable and affordable communications services, both narrowband and broadband, to the residents, businesses, governments and other customers in Alaska. ACS urged the Commission to recognize that phasing out universal service funding ("USF") and inter-carrier compensation ("ICC") would have disastrous effects for voice and broadband service in Alaska. ACS also pointed out that the inability to gain access to adequate and affordable "middle mile" facilities and long-haul transport has impeded development of advanced telecommunications and information services in the state. ACS argued that pending proposals for USF and ICC reform would, if adopted, fail to provide an adequate solution for Alaska's infrastructure requirements.

The Commission now seeks further comment on a number of aspects of USF and ICC reform, including proposals recently filed by the State Members of the Joint Board (State Members), the rural local exchange carrier trade associations ("RLECs"), and a group of six companies (the "America's Broadband Connectivity

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<sup>2</sup> *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, 26 FCC Rcd 4554 (2011) ("NPRM").*

Plan” or “ABC Plan”).<sup>3</sup> The Commission also seeks comment on a set of proposal offered by General Communication Inc. (“GCI”) as Alaska-specific reforms, and on other Alaska-specific proposals in the record of this proceeding.

Since the release of the *Public Notice*, ACS has spent many hours in discussions with other rural local exchange carriers (“LECs”), GCI, and other communications providers serving the state, trying to develop solutions that would foster universal broadband service in Alaska. Thus far, only ACS and GCI have been able to reach agreement on certain ideas, which are presented in these comments, among other targeted proposals that ACS advocates.<sup>4</sup> ACS believes that the proposals discussed herein would help ensure that the reforms undertaken in this proceeding will serve the public interest and substantially increase the availability of broadband to Alaska customers. Nonetheless, ACS continues to discuss these matters with the state’s other rural LECs and other service providers, and may offer additional proposals should a consensus be reached.

### **Discussion**

In these comments, ACS proposes several specific changes to the pending proposals that would serve the public interest by ensuring that consumers, businesses, and institutional customers in Alaska have greater access, not less, to

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<sup>3</sup> Comments by the State Members of the Federal-State Joint Board on Universal Service in WC Docket No. 10-90 *et al.* (filed May 2, 2011); Comments of NECA, NTCA, OPASTCO, and WTA in WC Docket No. 10-90 *et al.* (filed April 18, 2011); Letter from Robert W. Quinn, Jr., AT&T, Steve Davis, CenturyLink, Michael T. Skrivan, FairPoint, Kathleen Q. Abernathy, Frontier, Kathleen Grillo, Verizon, and Michael D. Rhoda, Windstream, to Marlene H. Dortch, FCC in WC Docket No. 10-90 *et al.* (filed July 29, 2011) (the “ABC Plan”).

<sup>4</sup> ACS notes that the details of ACS’s Target Alaska Fund (“TAF”) proposal and GCI’s Alaska Broadband Plan differ in some important respects.

high-speed Internet connectivity, advanced enterprise services, and other broadband-based services deemed necessary by the Commission. As a preliminary matter, ACS points out some of the most serious shortcomings the ABC Plan, which also are shortcomings of other proposals on which the FCC has sought comment.

I. The ABC Plan Will Not Serve the Interests of Consumers in Alaska

The ABC Plan proposes several modifications to the current ICC and USF regimes that ACS supports. For example, the plan advocates a right of first refusal for incumbent local exchange carriers (“ILECs”) for “Connect America Fund” (“CAF”) support for broadband investment. First proposed by the FCC, a right-of-first-refusal (“ROFR”) would give incumbent local exchange carriers greater certainty in planning network investment and service deployment, and thus will serve the goals of the Act and the Commission’s National Broadband Plan. However, a rule restricting that right to ILECs that already have achieved 35 percent broadband penetration<sup>5</sup> has no place in Alaska, which historically has had lower broadband penetration than the rest of the country, as acknowledged by the Commission.<sup>6</sup> As outlined in Section II.A. below, ACS submits that all carriers operating today as eligible telecommunications carriers (“ETCs”)<sup>7</sup> in Alaska should qualify to continue

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<sup>5</sup> It is unclear whether this broadband threshold is intended to refer to 4 Mbps downstream/1 Mbps upstream, or merely 220 kbps as currently defined by the FCC, or something in between. The ABC Plan would require CAF recipients to, “offer broadband service that provides customers with a minimum actual bandwidth of 4 megabits per second downstream and 768 kilobits per second upstream.” ABC Plan at 2; *see also* ACS Comments at 11–12.

<sup>6</sup> *See, e.g., NPRM* at paras. 101, 259.

<sup>7</sup> As used herein, the term “ETCs” refers to all eligible telecommunications carriers under Section 214(e) of the Communications Act, whether they are ILECs or

receiving support that has been available, as well as any additional CAF support allocated to the state, and should not be penalized for the inability to deploy facilities in high-cost areas where USF support historically was not adequate.

Of even greater concern, the ABC Plan does not provide ILECs or other ETCs a meaningful opportunity to earn sufficient ICC and USF or CAF revenues to increase broadband penetration, nor even to continue serving those areas that enjoy broadband access *today* – areas that would not have any access to broadband (or, in many cases, narrowband) services *but for* those revenues.<sup>8</sup> Without providing ACS and the other Alaska ETCs a meaningful opportunity to replace current ICC and USF revenues, the ABC Plan inevitably will result in a service *decline* in Alaska, to the detriment of consumers and the entire economy of the state.

Under the proposed ABC Plan, \$2.2 billion is set as an artificial cap on CAF support for areas served by price cap ILECs, and \$2.3 billion for areas served by rate-of-return ILECs, but only \$300 million per year in support is contemplated for the Advanced Mobility/Satellite Fund (“AMF”), which must support both direct-to-home (“DTH”) satellite broadband service in the highest-cost areas and mobile

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other entities; “CETCs” refers just to non-ILEC entities certified as competitive ETCs. *See* 47 U.S.C. §214(e).

<sup>8</sup> Under the ABC Plan, even where an ILEC is eligible for the access recovery mechanism (“ARM”), the carrier only would be permitted to recover 90 percent of its lost revenue, assuming imputed SLC increases (and local rates topping out at a prescribed cap), and that only for 5 years, phasing out at the end of 8 years. As noted below, the availability of CAF support under the plan would be difficult to predict without access to the cost proxy model and the FCC’s high-cost benchmark. It is thus doubtful how networks will be maintained given these revenue reductions.

broadband services in all areas that otherwise would be unserved.<sup>9</sup> This funding would be wholly inadequate to support mobile broadband to end-users in Alaska alone, where a significant amount of mobile broadband build-out has been made possible only through the incentive provided by universal service support to CETCs.<sup>10</sup> In addition, the high cost and limited availability of satellite backhaul transport services<sup>11</sup> in Alaska demand additional support to link non-contiguous service areas and provide connections to the nearest Tier 1 Internet peering point in Seattle, Washington.<sup>12</sup>

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<sup>9</sup> Satellite DTH service is used by a relatively small number of retail customers for access to Internet and video services in certain parts of the state where such coverage is available; it is susceptible to latency, weather-related signal attenuation – a major factor in Alaska’s climate – and is unavailable altogether in the northernmost parts of the state.

<sup>10</sup> See, e.g., Comments of General Communication Inc. (“GCI”) in WC Docket Nos. 10-90 *et al.* at 12 (filed July 12, 2010) (“Without high-cost universal service support, GCI would not be able to deploy services statewide. GCI has stitched together many different revenue streams to support its statewide services – establishing a basic platform that may deliver future mobile wireless broadband. But even with a diversified business base, GCI could not continue to deploy and might eventually have to cease services in parts of rural Alaska without the high-cost support it receives”).

<sup>11</sup> Satellite backhaul transport service is a wholesale input that is widely used by retail providers such as ACS and GCI to link remote communities to critical infrastructure in Anchorage. Current facilities are being used at or near capacity, are extremely expensive, and have technical limitations, including bandwidth constraints, latency, and other factors, which diminish their usefulness for consumer broadband. See *supra* note 9.

<sup>12</sup> See, e.g., *International Comparisons and Consumer Survey Requirements in the Broadband Data Improvement Act, et al.*, Comments of General Communication Inc., GN Docket No. 09-4 *et al.* at ii (“Because there is no Tier 1 Internet backbone connection in Alaska, GCI mostly transports its own traffic via fiber to and from Anchorage and connects directly to Tier 1 providers in Seattle.”) (filed Nov. 4, 2009).

Also like the Commission's own proposals, the ABC Plan would make it impossible for more than one provider to continue to serve most customers in Alaska. The ABC Plan's proponents may not be aware that the USF abuses and proliferation of ETCs that have developed in some markets in the lower 48 states have not occurred in Alaska. Most areas in the state are served by just two or three certified ETCs. Indeed the Commission recognized that the state is chronically underserved when it recently modified its CETC reform rules to permit CETCs throughout the state to continue receiving high-cost support.<sup>13</sup>

ACS believes that the proposed ICC and USF reductions will drive providers out of the rural service territories of Alaska,<sup>14</sup> except for those areas designated to receive continuing support or the new CAF support in adequate amounts to remain in business. The faulty assumption appears to be that providing CAF for a single provider such as the ILEC will be sufficient to ensure universal service that is both comparable and affordable. This assumption ignores the benefits that Alaska consumers have reaped from access to both wireline-based competition, such as between ACS and GCI, and multiple wireless CETCs that have deployed their networks and provide critical mobile services throughout the state. The consequences for Alaska would be disastrous.

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<sup>13</sup> *High-Cost Universal Service Support, Federal-State Joint Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, Order (rel. March 5, 2009).

<sup>14</sup> Anchorage is the only non-rural local exchange service territory in the state. See 47 U.S.C. §153(37) (defining "rural telephone company").

While it is difficult to predict with certainty the results of the ABC Plan in Alaska without access to the model for CAF support upon which it heavily relies,<sup>15</sup> the net results of all of the ICC reductions and shifts in cost-recovery appear to be that most end-users will pay more to their local voice/broadband service provider while very large providers (namely, AT&T and Verizon) who currently pay access and interconnection charges to terminate traffic on the smaller companies' networks in the state will receive a windfall in cost savings but no requirement to pass through the savings to consumers. As Free Press recently noted, the ABC Plan not only fails to actually address "the real problems" with USF, it simply "shift[s] the burden of reform to ordinary consumers."<sup>16</sup>

## II. Alaska's Unique Challenges Justify Certain Customized Rules

As stated previously in its Comments and Reply Comments in this proceeding, ACS believes that the Commission's proposals to reduce support to Alaska carriers will act as a *disincentive* for additional broadband deployment. Quite simply, the proposed reforms would undermine the Commission's national broadband goals. ACS and other parties have amply documented Alaska's uniquely

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<sup>15</sup> The ABC Plan arbitrarily sets an overall cap on the fund of \$2.2 billion in areas served by price cap carriers. The ABC Plan states that this would ensure over 4 million customers will have access to broadband, of which 2 million would have access to broadband for the first time; presumably 2 million more are served by ETCs currently receiving high-cost support. It does not, however, state how much support would be provided per customer location or per census block, or what cost assumptions are inherent in this calculation. ACS has not had access to the model developed by the proponents of the ABC plan, and to ACS's knowledge the model has not been tested against real-world costs and demand in Alaska.

<sup>16</sup> Press Release, Free Press, *Industry USF Plan Self-Serving, Will Raise Consumer Bills* (rel. July 29, 2011), <http://www.freepress.net/press-release/2011/7/29/free-press-industry-usf-plan-self-serving-will-raise-consumer-bills>.

harsh physical environment for deploying facilities and operating networks.<sup>17</sup>

Alaska also presents extreme financial challenges both for initial capital investment and for the costs of continuing operations, maintenance, and upgrade of networks.<sup>18</sup>

Broadband service has been deployed in Alaska where there was no business case to provide the service only because some form of support was made available for the underlying network infrastructure investment. Reduction or uncertainty of that support for existing facilities, and elimination of funding for CETCs, as proposed by the Commission and the ABC Plan, should be expected to result in cutbacks in services currently available, disincentives to future investment, and reduction or elimination of competition in many areas. If these were the Commission's goals, it would be on the right track.

ACS does not believe that the Commission seeks to undermine universal service or discourage broadband investment, however. ACS reads the *NPRM* and the *Public Notice* as genuinely seeking to advance broadband deployment, while preserving existing universal voice coverage, but to do so on a smaller budget, seeking efficiencies where they reasonably may be expected. ACS submits that the

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<sup>17</sup> See, e.g., Comments of the Regulatory Commission of Alaska in WC Docket No. 10-90 *et al.* at 6-7 (filed Apr. 18, 2011) ("RCA Comments") ("the vast distances between cities and towns, the geography, the lack of roads, the low population, and extreme arctic weather conditions make the deployment and provisioning of telecommunications services extremely challenging and expensive"); Comments of GCI in WC Docket No. 10-90 *et al.* at 12 (filed Apr. 18, 2011) ("GCI Comments") ("Alaska is far north of any other part of the United States, with much harsher and longer winters...Telecommunications infrastructure, such as microwave towers, must be built to withstand extreme conditions"); ACS Comments at 3-4, 8; Reply Comments of Alaska Federation of Natives in WC Docket No. 10-90 *et al.* at 3 (filed May 23, 2011).

<sup>18</sup> ACS Comments at 2, 8-10; RCA Comments at 7; Reply Comments of GCI in WC Docket No. 10-90 *et al.* at 12-14 (filed May 23, 2011) ("GCI Reply Comments").

following rules, tailored for Alaska's unique environment as an isolated and uniquely challenging service area, will serve the Commission's goals and specifically ensure that Alaska is not left out of America's broadband future. The proposal for a Target Alaska Fund described in Subsection A below largely reflects a basic consensus framework developed by ACS and GCI together, though the proposal differs in some important respects from GCI's Alaska Broadband Plan ("ABP").

- A. *Alaska Should Be Exempt From Any Cost Proxy Model; Support Initially Should Be Set At Current Levels, and Incentives Should Be Created to Promote Greater Broadband Availability Throughout the State Via the "Target Alaska Fund"*

Without access to the predictive cost proxy model developed by CostQuest in support of the ABC Plan (the "CQBAT") and a better understanding of the yet to be determined FCC "high-cost benchmark," it is impossible to see how the ABC Plan could possibly provide adequate funding for broadband deployment in Alaska.

It would not be reasonable for the Commission to assume that the CQBAT model will accurately predict the cost of deploying and maintaining broadband networks in Alaska. ACS is not aware that the CQBAT model has been tested against any real-world scenarios in isolated areas such as Alaska. Nor is ACS aware that any Alaska-specific inputs were used in developing the model. At this point, there does not appear to be any evidence in the record of this proceeding to indicate that providing universal coverage in Alaska was given any consideration whatsoever in the development of the ABC Plan or the CQBAT model which is central to the plan.

Unless it was developed with Alaska inputs, the use of a model generally can be expected to underestimate the cost of deploying, operating and maintaining broadband networks in Alaska. Further, the use of a high-cost benchmark or

funding floor is certain to disallow any support in some census blocks, even if they have no access to any broadband service today, if the model predicts broadband deployment costs below the FCC's benchmark. This approach may make sense in other parts of the United States but it will not serve the public interest in Alaska.

ACS has no access to the proprietary CQBAT model. It seems folly for the FCC to adopt wholesale reforms in universal service policy and make predictive judgments about achieving universal broadband coverage in reliance on a model to which only six companies have had access. Even more fundamentally, the use of any model is likely to fail the public interest in Alaska. As documented on numerous occasions by ACS, the use of cost proxy models, such as the Total Element Long-Run Incremental Cost ("TELRIC") pricing model used to develop unbundled network element ("UNE") prices, has led to absurd results in Alaska.<sup>19</sup> As ACS explained in its Comments, broadband models for Alaska would likely be even more problematic than the model used to price UNEs for ILEC voice networks. Some examples of factors that affect costs differently in Alaska include: (i) Alaska's relatively expensive terrestrial transport; (ii) the high cost and limited availability of satellite capacity used in most locations in the state for long-haul transport; (iii) the distance to the nearest Tier I Internet peering point, located in Seattle, Washington;<sup>20</sup> (iv)

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<sup>19</sup> See ACS Comments at 16-17 ("ACS's experts concluded that the price for UNE loops in Anchorage should be \$25 per line per month, while competing experts using the same model with different inputs concluded that the price for the same UNE loops could be as low as \$5 per line per month. Clearly, having an approved forward-looking cost proxy model was of little value in resolving this matter").

<sup>20</sup> The cable route from Anchorage, Alaska to Seattle, Washington is 2004 miles, most of which lies beneath the Pacific Ocean.

uniquely short construction seasons and permafrost conditions impeding construction; (v) higher equipment and provisioning costs due to transportation distances and inaccessibility; (vi) above-average labor costs and labor shortages due to the small population and remote location of the state; and (vii) non-contiguous ETC service areas, connected by bandwidth owned by a third-party service provider.

In ACS's experience, cost proxy models developed for the lower 48 states simply do not accurately predict the cost of construction or operation of communications facilities in Alaska.<sup>21</sup> ACS therefore advocates that the FCC forego the use of a cost proxy model in Alaska, and instead adopt an Alaska-specific support mechanism (the "Target Alaska Fund") that will encourage infrastructure investment in the state and take advantage of the unique competitive environment enjoyed by consumers today.

- Federal high-cost support<sup>22</sup> should be capped at the total amount of support dispersed to ETCs in the state in 2010. Specifically, the total amount of ILEC support, including interstate common line support ("ICLS") and high-cost loop support ("HCLS"), as well as CETC support disbursed for each study area in 2010 would make up the Target Alaska Fund ("TAF") budget. ACS believes that the TAF budget would be approximately \$219 million per year for the period 2012 to 2022.<sup>23</sup>

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<sup>21</sup> ACS Comments at 17-18.

<sup>22</sup> As used herein, high-cost support and TAF have no effect on ARM eligibility.

<sup>23</sup> The most recent USAC Annual Report pegged the total high-cost support in Alaska for 2010 at \$218,970,000. *See* Universal Service Administrative Company

- For Alaska ILECs, threshold TAF support should be disbursed at the same amount per study area as the ILEC received for the 2010 funding year. This amount should remain frozen for a minimum period of ten years, from 2012 to 2022.
- For Alaska CETCs, support should be frozen at the same per-line amount as the CETC received in the 2010 funding year. Thus, CETC support would be disassociated from ILEC support, and subject to decrease or increase in the event that a CETC loses or gains customer connections.
- There should be no “one to a market” rule for ETCs in Alaska, and no limit on the number of service providers eligible to receive support in any area. Consumers in Alaska greatly benefit from a modest amount of competitive choice and, as explained above, the state has not seen the same proliferation of CETCs that has plagued some service areas in the lower 48 states.
- If an increase in the number of CETC subscribers causes demand for CETC funding to exceed the TAF budget in any funding year, support for that year and subsequent years may be redirected according to the following series of steps (where only those steps necessary to bring the TAF within the budget in any funding year will be taken that year):

- First, in any funding year, reduce by up to 15 percent the amount of per-line TAF support of any CETC whose per-line support exceeds the average monthly support for study areas with fewer than 500 lines (currently about \$380 per line per month);
  - Second, in any funding year reduce both ILEC study area TAF support and CETC per-line TAF support in the Anchorage study area by not more than 20 percent of the 2010 amount;
  - Third, reduce to the extent necessary the ILEC study area TAF support and CETC per-line TAF support in the Fairbanks, Juneau and Greatland study areas, provided that such support may not fall below 90 percent of the 2010 amount for the duration of this plan; and
  - Fourth, reduce to the extent necessary the ILEC study area TAF support and CETC per-line TAF support in the remaining rural Alaska study areas, provided that such support may not fall below 90 percent of the 2010 levels for the duration of this plan.<sup>24</sup>
- For continued TAF eligibility for any support to any particular study area after January 1, 2012, each ETC must commit to deploying infrastructure within 10 years sufficient to support both broadband and voice capability to at least 75 percent of service locations in the

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<sup>24</sup> Note that this is one point where ACS's TAF plan and GCI's ABP differ.

wire center, with an interim milestone of 65 percent of service locations within 5 years, except where terrestrial transport is unavailable at affordable rates.<sup>25</sup>

- At the end of the ten-year plan, in 2022, the Commission should evaluate the progress of broadband deployment and service penetration in Alaska, and determine whether funding should continue at the same level, or whether changes to the TAF are merited at that time.

ACS believes the TAF plan will encourage Alaska ETCs to operate efficiently, invest in broadband, and compete vigorously. It will provide sufficient support to ensure that at least 75 percent of households have access to broadband by 2022. Should the Commission identify that additional CAF support is needed to support wider broadband deployment in Alaska, this support should be added to the existing TAF support, and should be administered under the same framework articulated above.<sup>26</sup>

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<sup>25</sup> Access to adequate bandwidth, with acceptable levels of latency and jitter, via terrestrial fiber or point-to-point microwave facilities must be available at rates comparable to what is available in urban areas, or Alaska carriers will not be able to meet these broadband deployment commitments in rural areas.

<sup>26</sup> If the Commission declines to freeze ILEC support at current levels, consistent with the TAF plan outlined above, or if the Commission decides to provide additional CAF support to carriers in the state, a ROFR should be offered to the Alaska ILECs because they are the only providers in Alaska with historic carrier-of-last-resort (“COLR”) obligations. In Alaska, ILECs are required to serve all customers on request, at reasonable, non-discriminatory rates, regardless of location or the difficulty of provisioning a line. Even cable television networks, while expansive in the state, are not ubiquitous. While broadband has not yet been required on request, the availability of ILEC facilities to nearly every customer

B. *The Commission Should Permit Unrestricted Use of Support For Capital as Well as Operating Expenditures*

The Commission should not restrict the use of the TAF to capital expenditures, but permit its use for both capital and operating expenditures provided that the above-mentioned broadband availability milestones are met.<sup>27</sup> Moreover, the types of facilities to which the support may be applied should be unrestricted: terrestrial, undersea or satellite backhaul facilities, local distribution plant, and software, all should be eligible so long as the availability milestones are

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location in the state provides a unique platform upon which to build broadband capability.

Moreover, in Alaska, it would be unrealistic to restrict the ILEC ROFR to areas where the ILEC already has achieved 35 percent broadband penetration. The Commission has recognized that broadband penetration in Alaska lags behind that of the rest of the country. Frequently, penetration is lower in Alaska wire centers due in part to the fact that inadequate funding is available through the current high-cost program, where support may not be used for construction of middle mile and long-haul transport facilities needed to deliver broadband to isolated wire centers, and in part because price compression due to intense competition has depleted the ILECs' available resources for investment in new infrastructure. The Commission should allow ILECs 3 years to reach 35 percent penetration in all wire centers eligible for Alaska broadband/USF/CAF support. As noted below, ACS also supports a requirement that ETCs achieve 65 percent broadband availability by the end of 5 years, and 75 percent by the end of 10 years, in order to remain eligible for Alaska broadband support, except where terrestrial transport is unavailable at affordable rates.

<sup>27</sup> For a discussion of the uniquely high operating as well as capital costs in Alaska, see GCI Comments at 34-35. See also RCA Comments at 7 (“[T]he vast distances between cities and towns, the geography, the lack of roads, the low population, and extreme arctic weather conditions make the deployment and provisioning of telecommunications services extremely challenging and expensive. The unique challenges Alaska’s service providers face lead to especially high costs for both capital expenditures and operating costs. Most rural locations in Alaska would likely not have voice services today, let alone broadband, absent federal funding.”).

achieved.

The Commission should not require that the highest-cost connections be provided by satellite DTH service, or any other alternative technology, supported through the AMF.<sup>28</sup> In addition to the inadequacy of the funding for the AMF, discussed above,<sup>29</sup> satellite DTH has never been widely adopted in Alaska as a retail broadband service. High prices, limited throughputs, weather-related attenuation and coverage limitations have proven to be significant obstacles in this state. In contrast, terrestrial-based ETCs have the track record and know-how to deliver fixed and mobile broadband services in Alaska's uniquely challenging environment. Satellite has never proven a viable substitute for retail service in the state.<sup>30</sup>

C. *The Commission Should Exempt Alaska from National ICC Reductions And Only Require That Alaska LECs Lower Interstate and Intrastate Switched Access Charges To \$0.0095*

In its Reply Comments, ACS explained that the ICC reform under consideration by the FCC has been substantially accomplished in Alaska.<sup>31</sup> Notably, intrastate carrier common line ("CCL") charges, representing the bulk of the ACS

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<sup>28</sup> The ABC Plan assumes an arbitrary cap on CAF support to price cap carriers of \$2.2 million. To keep the total cost under the cap, the CQBAT model excludes the 730,000 households where support would be required in excess of \$256 per household per month, assuming an FCC high-cost benchmark of \$80 per month. ABC Plan, Attach. 1 at 5.

<sup>29</sup> See *supra* Section I, pp. 5-6.

<sup>30</sup> See RCA Comments at 22 ("Even with our high dependence on satellite technology, Alaska does not employ satellite technology for local to local calls given the costs and quality of service issues."); see also Comments of Alaska Communications Systems in WT Docket No. 10-208 *et al.* at 3-4 (filed Dec. 16, 2010).

<sup>31</sup> ACS Reply Comments at 5-6.

ILECs' intrastate access revenues, are being phased out.<sup>32</sup> In addition, ACS's interstate ILEC access rates are subject to price cap regulation, so its average traffic-sensitive ("ATS") rate already is at \$0.0095. In other words, a substantial portion of network cost already has shifted from access customers to end-users in Alaska. The Commission thus should not mandate further financial shifts onto end-users, but require only that Alaska carriers bring their intrastate and interstate rates into parity.

ACS elected price caps at the interstate level in 2009, and voluntarily reduced its interstate traffic-sensitive switched access rates to the target average traffic-sensitive rate of \$0.0095.<sup>33</sup> As a result, for several years already, interexchange carriers ("IXCs") have enjoyed lower ATS rates when terminating interstate switched access traffic in ACS ILEC territories than when terminating interstate switched access traffic anywhere else in the state.

Since then, the RCA also has implemented access charge reforms in its Docket R-08-003. Beginning in August 2011, Alaska LECs are implementing a phase-out of the intrastate CCL rate element previously paid by IXCs. As the CCL charge goes to zero, the Alaska Network Access Fee ("NAF") – the state's equivalent of the FCC's end-user common line charge or subscriber line charge – begins to increase.

Initially, the NAF will increase from \$3.00 per line per month to \$3.75 per line per

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<sup>32</sup> Alaska's "intrastate common line access rates ... are not per minute based" RCA Comments at 29.

<sup>33</sup> *ACS of Alaska, Inc., ACS of Anchorage, Inc., AS of Fairbanks, Inc., and ACS of the Northland, Inc., Petition for Conversion to Price Cap Regulation and Limited Waiver Relief*, Order, 24 FCC Rcd 4664 (Wireline Comp. Bur. 2009).

month in all markets except Anchorage (the NAF for ACS of Anchorage will be capped at \$3.69 per line per month). The NAF will continue to escalate each year by \$0.50 per line per month until the ILEC recovers its intrastate common line revenue requirement or the NAF reaches the ceiling of \$5.75 per line per month, whichever is lower.<sup>34</sup> In areas (other than Anchorage) where the NAF is insufficient to recover the ILEC's intrastate common line revenue requirement in any year, the Alaska Universal Service Fund ("AUSF") may provide additional support. However, as the NAF increases, the AUSF will be reduced concurrently so no ILEC recovers more than 100 percent of its intrastate common line revenue requirement.<sup>35</sup>

Importantly for Alaska's consumers, IXCs in Alaska are required either to demonstrate that they have passed through access cost reductions to end-users or to lower their intrastate long-distance charges until they are at parity with their interstate long-distance rates.<sup>36</sup> Virtually all of the IXCs serving Alaska (including

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<sup>34</sup> Only wireline-based local exchange carriers ("LECs") must include a NAF on their end-user bills. Commercial mobile radio service ("CMRS")-based providers are not required to impose a NAF on their customers, though they do contribute to the AUSF. VoIP-based providers neither contribute to the AUSF nor are required to include a NAF on their customer bills. This distinction is expected to have a negative competitive impact on LECs.

<sup>35</sup> Additional AUSF support is to be made available to the COLR in areas outside Anchorage. Anchorage has no COLR and no entity will be eligible for this support. In the rest of the state, the ILEC currently is designated as the COLR, but the RCA could change that designation.

<sup>36</sup> Pursuant to a decision issued by RCA on August, 18, 2010, interexchange carriers in Alaska are required to reduce their intrastate long-distance rates, "with the goal of reaching parity with interstate long distance rates, in light of the cost reductions realized by eliminating their payment of state CCL access fees." RCA Docket No. R-08-003 – *Consideration of Modifying Alaska Access Charge Policies and*

ACS and the other ILEC-affiliated companies, as well as GCI and AT&T) have filed tariff changes to bring their mass market Alaska long-distance rates into parity with their interstate prices. Rates for interexchange business services also are subject to this rule, but over a longer implementation period.

Therefore, the Commission should exempt ACS from any requirement that Alaska ILECs reduce their interstate switched access rates. ACS proposes that traffic-sensitive rates for all carriers in the state should be brought into parity with price cap ATS levels at \$0.0095, and there be permitted to rest.<sup>37</sup> Further reductions in either interstate or intrastate access rates at this time would place an extraordinary burden on Alaska consumers during a time when state rates already are rising. Both the FCC and the RCA should proceed incrementally, observing the effects of the recent in-state changes and this modest proposed change to the FCC's rules, before ordering any further changes to the rates charged by Alaska's ILECs.<sup>38</sup> Proceeding with any more rate reductions would effectively penalize ACS for voluntarily lowering its interstate ATS rates, and penalize the entire state for engaging in substantial reform of intrastate rates. The Commission ultimately would be punishing consumers and granting a windfall benefit to the IXCs.

D. *Alaska Carriers Should Be Exempt From Rate Benchmarking*

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*the Use of the Alaska Universal Service Fund to Promote Universal Service in Alaska*, Order at 2 (rel. Aug. 18, 2010) ("RCA Order"); *see also NPRM* at 4724, n.819.

<sup>37</sup> This is another point on which ACS believes that it differs from GCI's ABP.

<sup>38</sup> Moreover, ACS should be permitted to qualify for any access replacement mechanism ("ARM") adopted by the Commission without regard to the amount of support received under the TAF or CAF.

The FCC views rate benchmarks as ensuring that local rates are not “artificially low,”<sup>39</sup> but another viewpoint is that they help guarantee inadequate revenue to LECs. In many areas of Alaska, intense competition (wireline, wireless and broadband) has become the norm, and customers are discontinuing traditional wireline connections by as much as 8 percent per year. As described in Section II.C. above, recently implemented reforms in Alaska are causing end-user rates to rise, and forcing the Alaska LECs to recover more of their costs from their end-users, or forego the revenues altogether due to competitive pressures. In 2011, for example, the Alaska Universal Service Fund contribution rate jumped from 1.3 percent to 9.5 percent of intrastate revenue.

ACS believes that local rates in Alaska soon will meet or exceed the \$25 rate benchmark discussed in the pending proposals.<sup>40</sup> In light of local market and regulatory conditions, imposing increased retail prices through federal SLC hikes would simply invite LEC customers to migrate to another technology with a lighter

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<sup>39</sup> *Public Notice* at 7.

<sup>40</sup> Under the ABC Plan, a price cap LEC may not receive support under the access recovery mechanism (“ARM”) unless the impact from its ICC reductions exceed an imputed SLC increase specified in the plan, or cause its local residential rates to exceed a benchmark of \$30 per line per month, where the benchmark covers the local residential service charge, federal SLC, state SLC, per-line contribution to the high-cost fund, and any mandatory EAS surcharge. ABC Plan, Attach. 1 at 12. Attachment A to these comments shows a sample customer bill for a Soldotna customer served by ACS of the Northland which includes four of the five rate elements listed in the ABC Plan (local residential service charge, federal SLC, state NAF, per-line contribution to the AUSF) as well as additional monthly recurring charges not listed in the ABC Plan: the federal universal service contribution per-line charge, the federal E-911 surcharge, the Alaska regulatory cost charge (RCC), a TRS charge, and a charge for federal excise tax. It is not clear why these charges would not be included in the rate benchmark proposed in the ABC Plan.

regulatory burden.<sup>41</sup> The RCA is aware of the risks to the ongoing viability of wireline networks posed by dramatically shifting cost recovery to end-users.<sup>42</sup> This is particularly compelling in the case of business customers, where per-line rate increases almost certainly will exacerbate flight from the public switched telephone network to rapidly evolving IP-based networks. ACS anticipates that the state will closely monitor the effects of the NAF increases and the ongoing need for state AUSF funding. The FCC should not complicate matters for Alaska's vulnerable service providers by setting an additional rate benchmark at the federal level.

III. The *Public Notice* Raises Other Concerns About Unintended Consequences Of the Commission's Reforms In Alaska

ACS has a number of additional concerns about suggestions made in the *Public Notice*. ACS believes the sweeping changes proposed in this proceeding have neither been adequately explained nor thoroughly explored. For companies such as ACS to support the proposed changes, they must have a reasonable opportunity to calculate the significant outcomes. Investors demand information about the risks and opportunities inherent in regulatory changes. Network operators must have a detailed understanding of regulatory obligations as well as demand changes in the marketplace order to plan effective facilities deployment and upgrades. Sales and

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<sup>41</sup> The proposal of a complete rate review is an ineffective alternative. Such a review would consume massive resources and be contrary to the Commission's preference to rely increasingly on market forces.

<sup>42</sup> RCA Commissioner Tony Price recently observed, "I think that this just is going to lead to the acceleration of the decline in wireline services and by that we'll have the ILECs coming in and saying we need even more money, more NAF, more subsidy which will lead to more people saying there's a fee on my bill and these fees are getting too high and I'm just going to shut it off." Reg. Comm'n of Alaska Public Meeting Transcript (Feb. 5, 2010) at 36.

marketing personnel also need to assess pricing constraints as well as changing market dynamics to develop products and services that maximize the efficient use of the network. Virtually no part of ACS's business will be unaffected by this proceeding, yet it has to date seen only the bare outlines of the reforms that lie ahead. A few examples of the open questions follow.

A. *Regulatory Status of Broadband Service Providers Should Be Clarified*

The ABC Plan proposes to establish "default" ICC rates but allow companies to negotiate different rates at will. The ABC Plan fails to indicate, however, whether there should be any obligation by any broadband providers to interconnect with any other providers, and if so, whether any non-discrimination requirements ought to apply (which could complicate the negotiation of individual arrangements).

Similarly, both the ABC Plan and the FCC's *NPRM* contemplate eliminating the distinction between rural and non-rural carriers for purposes of USF policy, but maintain a distinction between price cap and rate-of-return carriers. It is not clear what other consequences this decision might have – for example; will rural carriers still be entitled to the exemption from certain interconnection and unbundling obligations under Section 251(f) of the Communications Act?<sup>43</sup>

In fact, neither the *NPRM* nor the ABC Plan discusses what obligations under Section 251 of the Act, if any, will apply to broadband networks, what their regulatory classification will be, or whether permission will be required under

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<sup>43</sup> 47 U.S.C. § 251(f).

Section 214<sup>44</sup> or state laws to discontinue existing telecommunications services once broadband services (including VoIP services) are available.<sup>45</sup>

In the same vein, when the ABC Plan proposes that COLR obligations only should apply to recipients of CAF support, it is not clear whether the plan's proponents intend for the FCC to state what those obligations may be, or leave them to the states, leaving open the possibility of widely disparate requirements across the country, nor is it clear whether the proposal is for the FCC to forbear from and preempt all common carrier obligations of non-COLRs, or only a subset of those obligations.<sup>46</sup>

*B. The Relationship Between the CAF and ICC Should Be Clarified*

The ABC Plan states that CAF support and ICC reform are linked, but it does not clearly specify how this may be. The ICC reforms and related establishment of a temporary ARM proposed in the ABC Plan appear not to be dependent on whether a carrier remains a recipient of federal support through the CAF or AMF. The dramatic reductions in ICC revenues proposed in the ABC Plan appear to be entirely divorced from CAF and AMF support. Conversely, CAF eligibility appears unrelated

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<sup>44</sup> 47 U.S.C. § 214.

<sup>45</sup> The ABC Plan also appear to assume that tandem switching will not be a common carrier obligation, and tandem switching may be discontinued or withheld. Although not an issue in Alaska, this type of detail is an example of a significant but unstated benefit of the plan for its largest proponents – the major national carriers – that should be tallied in the FCC's weighing of the costs and benefits of the overall plan.

<sup>46</sup> Similarly, the ABC Plan mentions pricing flexibility in passing, but never explains what regulations, if any, are envisioned either for CAF recipients or for other broadband providers.

to ICC charges, except for the relationship between imputed subscriber line charge (“SLC”) levels and calculation of the CAF.

C. *Funding of the CAF Must Be Assured*

The ABC Plan does not specify how the CAF will be funded, but makes reference to the CAF becoming “fully funded” within 4 years.<sup>47</sup> It is not clear what amount of support will be available during the transition from years 1 to 4, under the ABC Plan. Moreover, as proposed, CAF support would cease at the end of 10 years. It is not clear how such a plan could be consistent with the requirements of the Communications Act that support be “specific, predictable and sufficient.”<sup>48</sup> It also is not clear how broadband could be maintained in high-cost areas such as Alaska with so little certainty about the availability of funding over time.

D. *Discrepancies Between Federal and State Rules and Policies Must Be Resolved*

Poor coordination between federal and state policy to date has resulted in massive regulatory inequities that skew local competition in Alaska. ACS competes for local, long-distance, wireless and Internet service customers with GCI, the largest cable and long-distance provider in the state. ACS’s intrastate telecommunications rates until recently were heavily regulated; GCI’s intrastate rates essentially have been subject only to “notice filing” requirements. With the exception of minimal oversight of basic service packages in Juneau, GCI’s cable rates never have been regulated. ACS has borne COLR obligations, and has been required to provide access

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<sup>47</sup> ABC Plan, Attach. 1 at 1 (the transition from USF to CAF would start July 1, 2012, and would eliminate “support from the legacy universal service programs entirely by July 1, 2016”).

<sup>48</sup> 47 U.S.C. §254(b)(5).

to its local exchange network to competing LECs at below-cost prices; GCI has a majority market share in the Anchorage local exchange market, yet bears no such obligations.

In this proceeding, the FCC must either clarify how carriers may satisfy their remaining obligations under state law, or preempt them. These obligations include requirements to maintain switched voice services, given diminishing USF/ICC revenues and uncertain CAF support. They also include local interconnection and service quality obligations designed for the ATM-based circuit-switched network. Moreover, the FCC should not compound the problem by empowering the states to regulate broadband, or to assume a gatekeeper role in federal support programs designed to promote nationwide broadband deployment.

### **Conclusion**

For the foregoing reasons, ACS urges the Commission to take into account the special circumstances faced by broadband providers in Alaska and tailor its ICC and USF reforms to the unique challenges and market conditions in the state. As parties from Alaska have testified many times in these proceedings, the FCC's universal service programs have been successful in Alaska, but the job is not finished. ACS 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 an extended and modified approach with the ultimate goal of bringing Alaska into full broadband participation with the rest of the states without compromising today's successful deployment of voice networks.

Respectfully submitted,

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August 24, 2011

**Attachment A**

**SAMPLE  
ACS of the Northland  
END-USER BILL – LOCAL RESIDENTIAL SERVICE**

*Below are the monthly recurring charges from a sample ACS RLEC residential bill (personal customer information is excluded to protect confidentiality).*

*N.B. The first five items below are listed in the ABC Plan, but Alaska Basic Local Exchange Service customers pay additional monthly recurring charges, as reflected in the items below the Subtotal line.*

<b>Basic Local Service Charge</b>	\$	14.50
<b>Alaska SLC (NAF)</b>	\$	3.75
<b>Federal SLC</b>	\$	6.50
<b>Per-line Contribution to the AUSF (9.5%)</b>	\$	1.74
<b>Extended Area Service (EAS) Charge</b>		N/A
<b>Subtotal (ABC Plan)</b>	\$	<b>26.49</b>
E911 Surcharge*	\$	1.50
Federal Universal Service Contribution (14.4%)	\$	0.94
Alaska Regulatory Cost Charge (RCC) (0.787%)	\$	0.14
Federal Excise Tax (3%)	\$	0.83
UAS (TRS) Charge	\$	0.01
<b>Total Monthly Recurring (Non-Traffic-Sensitive) Charges For Basic Local Service Per Residential Line</b>	\$	<b>29.91</b>

*This example does not include other monthly recurring charges that typically appear on this type of bill, such as local sales tax, where applicable.*

*\*E911 surcharge in Alaska varies based on location - this example uses the rate for Soldotna.*