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

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337

REPLY COMMENTS OF THE ALASKA RURAL COALITION

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I. **Introduction**.

The Alaska Rural Coalition[1] ("ARC") files its Comments in this proceeding pursuant to the June 8, 2012 *Public Notice* issued by the Federal Communications Commission ("Commission") seeking comments regarding the model design and data inputs for Phase II of the Connect America Fund ("CAF").[2] Although the CAF Phase II cost model is designed to allocate funds to Price Cap carriers, there are significant implications for Rate-of-Return ("RoR") carriers, particularly in Alaska.[3] The ARC focuses its comments on the implications of the cost model on Alaska and Rate-of-Return ("RoR") companies. The ARC could not assess the ABC Coalition's cost model due to access constraints and continues to be concerned about the lack of transparency.

The ARC membership consists of most of the RoR incumbent rural local exchange carriers ("RLECs") in Alaska,[4] who share unified interests regarding the impacts of proposed changes in universal service funding and access charge revenues to the state.

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1 The ARC is composed of Arctic Slope Telephone Association Cooperative, Inc., Bettles Telephone, Inc., Bristol Bay Telephone Cooperative, Inc., Bush-Tell, Inc., Circle Telephone & Electric, LLC, Cordova Telephone Cooperative, Inc., Copper Valley Telephone Cooperative, Inc., City of Ketchikan, Ketchikan Public Utilities, Matanuska Telephone Association, Inc., OTZ Telephone Cooperative, Inc., Interior Telephone Company, Mukluk Telephone Company, Inc., Alaska Telephone Company, North Country Telephone Inc., Nushagak Electric and Telephone Company, Inc., The Summit Telephone and Telegraph Company, Inc., and Yukon Telephone Company, Inc.

2 Federal Communications Commission, *Wireline Competition Bureau Seeks Comment on Model Design and Data Inputs for Phase II of the Connect America Fund*, Public Notice, DA 12-911 (June 8, 2012) ("*Model Design/Data Inputs Public Notice*").

3 *Model Design/Data Inputs Public Notice* at footnote 60.

4 The other ILECs in the state are the ACS companies, which are all Price Cap, and United Utilities, Inc., a rural ILEC that is wholly–owned and controlled by GCI.

The application of the CAF Phase II Cost model[5] to RoR companies raises significant concerns for rural companies attempting to accomplish the Commission's mandate to expand broadband services while attempting to maintain existing legacy networks fundamental to both that effort and fulfilling existing Carrier of Last Resort obligations.[6]

The ARC is deeply concerned with the utilization of the Remote Areas Fund envisioned by the Bureau in the *Model Design/Data Inputs Public Notice*.[7] The ARC disputes the suggestion that benchmarks ought to be used to determine the minimum threshold of which carriers may receive high cost support and the maximum threshold at which carriers are disqualified and must seek support form the Remote Areas Fund.[8] The potential that the demand for support will outstrip the capacity of the Remote Areas Fund is significant and troubling. The ARC joins other rural companies in requesting that the Commission reconsider using the CAF Phase II cost model to determine what companies should be eligible for the Remote Areas Fund.[9]

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5 The analysis of the application of a CAF Phase II cost model to RoR companies does not materially differ whether it is the ABC Coalition model or the ACS model.

6 3 AAC 53.265; "Importantly, these reforms do not displace existing state requirements for voice service, including state COLR obligations. We will continue to work in partnership with the states on the future of such requirements as we consider the future of the PSTN." *Transformation Order* at para. 75.

7 *Model Design/Data Inputs Public Notice* at para. 59.

8 *Id.*

9 See *Comments of the Nebraska Rural Indpendent Companies In Response to Wireline Competition Bureau Request For Comment on Model Design and Data Inputs for Phase II of the Connect America Fund*, *in the matter of Connect America Fund*, WC Docket No. 10-90, Docket No. 05- 337, before the FCC (July 9, 2012)("*Nebraska Comments*") at 2 ("These Comments focus on the inappropriateness of applying any price cap model to RoR areas both as a policy matter and from a technical standpoint based on model design."); *Comments of the National Telecommunications Cooperative Association, Organization for the Promotion and Advancement of Small Telephone Companies and the Western Telecommunications Alliance In*

II. <u>The CAF Phase II Cost Model Should Not Be Applied to Rate-of-Return Companies</u>.

The ARC concurs with other commenters that the application of the CAF Phase II cost model to RoR companies will undermine basic and advanced telecommunications in rural areas.[10] The CAF Phase II cost model was intended by the Commission to apply to Price Cap carriers.[11] The Commission specifically directed the Wireline Competition Bureau ("Bureau") to "consider the unique circumstances of [Alaska, Hawaii, Puerto Rico, the U.S. Virgin Islands and Northern Marianas Islands] when adopting a cost model" and emphasized the need to "consider whether the model ultimately adopted adequately accounts for the costs faced by carriers serving these areas."[12] Given the number of comments by carriers serving these areas received in response to the *Model Design/Data Inputs Public Notice*, the ARC respectfully suggests that the Bureau's current intention to apply the cost model to RoR companies, including those serving

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Response to Wireline Competition Bureau Request for Comment on Model Design and Data Inputs for Phase II of the Connect America Fund, in the matter of Connect America Fund, WC Docket No. 10-90, Docket No. 05- 337, before the FCC (July 9, 2012) at 2 ("*Rural Associations Comments*") ("The extension of this model in such a manner, however, is inappropriate from both a policy and technical perspective, and lacking in evidentiary foundation.").

10 *See Nebraska Comments* at 2.

11 *See 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 an Unified Intercarrier 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, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov.18, 2011) ("*Transformation Order*"). at para.156.

12 *Model Design/Data Inputs Public Notice* at para. 3 (quoting *Transformation Order* at para. 193.).

Remote and Insular areas, fails to adequately consider the actual costs borne by carriers serving these areas.

A. The CAF Phase II Cost Model Could Devastate Rural and Remote Areas Served By Rate-of-Return Carriers.

The *Model Design/Data Inputs Public Notice* suggests that the CAF Phase II cost model may play a pivotal role in allocating high cost support to RoR companies.[13] Although the intention of the model is to allocate support to Price Cap carriers, the ARC remains very concerned by the potential that traditional RoR regulation will be abandoned in favor of application of a cost model ill suited to address the unique service areas of rural and remote carriers. The ARC agrees with other commenters that applying the CAF Phase II cost model in rural areas served by RoR carriers could prove problematic at best.[14]

The CAF Phase II cost model is not designed to account for the idiosyncrasies of serving rural areas.[15] The diversity within rural areas regarding terrain, population and climate make it challenging to create a model that accurately captures all relevant elements. It is difficult to provide detailed comment on the cost model since the ARC has not had full access to it. The lack of transparency in the model further suggests it

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13 *Model Design/Data Inputs Public Notice* at para. 64. "The Bureau seeks comment on how to establish both the cost benchmark above which a high-cost area will be eligible for support and the extremely high-cost threshold, above which an area will be ineligible for support through the CAF Phase II and will instead be eligible for support through the Remote Areas fund (RAF)." *Citing Transformation Order* at paras. 533-38.

14 *Nebraska Comments* at 2. "NRIC urges the Bureau to unequivocally declare that the application of any such model is limited to areas served by Price Cap carriers and that such model would not be applied to areas served by RoR carriers." *Id.*

15 *Nebraska Comments* at 4-5.

could have unintended consequences for rural RoR companies if the application stretches beyond the Price Cap carriers the model was designed to cover.

Giving the small size and lack of resources facing RoR carriers it is impossible to use a cost model to predict adequate levels of support.[16] It is critical to understand that errors in a cost model intended to allocate high cost support are magnified for small companies. "It has not been shown that models are successful at predicting costs of service throughout rural Alaska. Errors or incorrect assumptions, having only minor impact on large companies, may be devastating for small, rural Alaska companies given their limited resources."[17] The ARC urges the Bureau to consider alternatives to applying the CAF Phase II cost model, whatever form it may eventually take, to RoR carriers serving rural and remote areas.

B. The CAF Phase II Cost Model Raises Serious Concerns for Alaska.

Alaska regulators have consistently expressed serious concern about the application of a cost model to the allocation of high cost support in Alaska.[18] "[M]odels based on network structures and technologies applicable in the Contiguous United States

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[16] Until federal law is changed, the ARC will continue to operate under the understanding that universal service must provide sufficient and predictable support to ensure that all Americans have access to basic and now enhanced telecommunications. *See* 47 U.S.C. § 254.

[17] *Comments of the Regulatory Commission of Alaska in the matter of Connect America Fund*, WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) ("*RCA Comments*") at 14.

[18] *See generally RCA Comments.*

would be inapplicable to Alaska."[19] The cost model proposed by the ABC Coalition appears to lack data inputs relevant to the actual cost of constructing or maintaining networks in Alaska. The ARC concurs with ACS that application of that model to Alaska would result in dramatically inaccurate results.[20]

The Bureau seeks comment regarding the Alaska Communications Systems Group, Inc. ("ACS") cost model submitted to the Commission.[21] The ARC did have its expert review the ACS cost model inputs.[22] Although the ACS cost model represents an improvement over the nationwide model proposed by the ABC Coalition, it still understates the actual cost of constructing and maintaining telecommunications infrastructure in Remote Alaska.[23]

The ARC ultimately agrees with ACS that the application of a cost model to any part of Alaska raises a host of issues.[24] The ARC is not enthusiastic about ACS's

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[19] *RCA Comments* at 14. "Further, few individuals, including those developing cost support models, are likely to have the experience necessary to develop a model that accurately predicts costs of construction in arctic conditions, especially given the variation in those conditions for a state the size of Alaska." *Id.*

[20] *Comments of Alaska Communications Systems Group, Inc. in the matter of Connect America Fund*, WC Docket No. 10-90, Docket No. 05- 337, before the FCC (July 9, 2012) ("*ACS Comments*") at 6.

[21] *Model Design/Data Inputs Public Notice* at para. 9.

[22] *See Appendix A: Acknowledgment of Confidentiality- WC Docket Nos. 05-337, 10·90*; Federal Communications Commission, DA 12-193 (Feb. 22, 2012), *available at* http://apps.fcc.gov/ecfs/document/view?id=7021862803.

[23] ACS used its own network investment as a baseline measurement. The ARC's analysis suggests that ACS has made less investment in the last decade than the average RoR carrier in Alaska. The difference in regulatory incentives to make investments and the availability of capital is likely the primary reason for the discrepancy.

[24] *ACS Comments* at 2. "[T]he proposed model would provide insufficient funds to deliver broadband to all areas of Alaska, condemning its residents to life without this increasingly

proposed solution to freeze support.[25] Frozen support does not promote additional investment at a time when Alaska lacks critical middle mile infrastructure.[26] ACS as a Price Cap carrier possesses more resources to build that infrastructure and connect remote areas of Alaska to the internet backbone. The ARC believes that a cost-based support mechanism provides the most reliable and consistent support mechanism, but the existing model under consideration underestimates those costs to such a degree it is unworkable in Alaska.[27]

III. <u>Remote Areas Require Additional Investment To Maintain Existing Services and Expand Broadband Services</u>.

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essential link to economic, cultural, educational, and health care opportunities enjoyed throughout the contiguous states." *Id.*

[25] *ACS Comments* at 4-5.

[26] *ACS Comments* at 8 ("The Commission's model ignores the costs of extremely long haul middle mile transport in Alaska, especially by satellite and undersea cable, which are necessary to support delivery of the broadband speeds mandated by the Commission."); *Comments of General Communication, Inc. in the matter of Connect America Fund*, WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05- 337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) at 28 ("*GCI Comments*") ("As discussed above, middle-mile costs will be a significant (but not the only) component of the high costs of delivering any type of broadband – whether fixed or mobile – to Remote Alaska…middle mile is an essential component of providing affordable and reasonably comparable broadband services to rural Alaska, and of creating a communications infrastructure that can support critical public health, education and safety needs."); *RCA Comments* at 19 ("Funding for middle mile infrastructure is essential to deployment of broadband in Alaska."); and *Comments of Alaska Rural Coalition in the matter of Connect America Fund,* WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05- 337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) ("*ARC USF I Comments*") at 4-5 ("Access to Affordable Middle Mile is Critical to Extend Broadband into Remote Areas of Alaska.").

[27] *ARC USF I Comments* at 17-19 ("The CAF Order proposes a methodology based on benchmarks for "reasonable costs" to impose limits, but does not differentiate in the benchmark formula the actual cost characteristics within the rural areas that ARC carriers operate.").

The Commission has received voluminous comments from Alaska regulators and carriers regarding the unique nature of the State.[28] Although the ARC has no desire to be redundant, the lack of roads, extreme climate and harsh geography of Alaska must remain in the forefront of the discussion when considering the role the Remote Areas Fund will play in Alaska. The ARC believes the Remote Areas Fund represents an opportunity for the Commission to address the substantial barriers to broadband in remote and insular areas. The Remote Areas Fund lacks sufficient capacity to provide high cost support to the highest cost areas served by Price Cap carriers, provide a consumer subsidy to those unreachable by last mile infrastructure and also make a real investment in needed middle mile infrastructure.

A. The Remote Areas Fund Should Address Only the Very Highest Cost Areas.

The Remote Areas Fund was designed to provide affordable broadband to Americans living in areas where the cost of deploying traditional terrestrial broadband is

[28] *RCA Comments* at 2-3 ("The FCC has heard it many times: Alaska is different. Our vast size, small population, extreme weather and landscapes, and high costs have been described in numerous filings."); *Comments of Alaska Communication Systems, Inc. in the matter of Connect America Fund*, WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05- 337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) at 3, n. 4 ("Almost everything about providing communications services in Alaska is unique and sets its service providers apart from what other carriers across the country experience."); *ARC USF I Comments* at iii-iv ("Small rural carriers could not survive a regime where competitors can cherry pick the most profitable areas to serve and leave the ETCs with the highest cost areas and an insufficient funding bases. This is especially true in Alaska where areas are unconnected and sparsely populated."); *GCl Comments* at 2-4 ("Alaska is a uniquely high-cost area within which to provide any telecommunications, whether traditional telephony, mobile or broadband. Much of remote Alaska lacks even the basic infrastructure critical to most telecommunications deployment, such as a road system and an intertied power grid.").

"extremely high."[29] In the *Transformation Order*, the Commission indicated that "some remote areas are not necessarily high cost," and committed the Remote Areas Fund's support to areas that are *both* remote *and* extremely high cost to serve.[30] The ARC encourages the Bureau and then the Commission to follow this logic when distributing Remote Areas Fund support. The Remote Areas Fund should be reserved for only the very highest cost areas where the population, climate and geography make terrestrial broadband service prohibitively expensive absent federal support.[31] In Remote Alaska, the lack of terrestrial middle mile represents the most significant barrier to modern broadband.[32] The ARC believes the best use of Remote Areas Fund support in Alaska may be to target this lack of essential infrastructure.

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29 *Transformation Order* at para. 1223.

30 *Id.* at fn. 2286.

31 *Id.* at para. 1224. For reasons we have previously explained to the Commission, Alaska's relatively extreme latitude and weather mean that satellite broadband will be an inadequate solution to providing its rural areas broadband service. *See ARC USF I Comments* at 25 ("Satellite service is notoriously unreliable in Alaska for many reasons including inclement weather and geographic limitations based on line of sight.") and at 32 ("Unfortunately, providing the speed, latency or capacity required by the Commission for CAF support for satellite service is not yet capable in most areas of Alaska.").

32 *ACS Comments* at 8; *GCI Comments* at 26 ("Satellite capacity is also extremely expensive and non-scalable; satellite costs rise directly in proportion to capacity needs. Therefore, unless terrestrial middle-mile networks can be built, the cost to the USF will continue to rise as consumers' demand increases. The only alternative would be to either increase the cost to consumers—which would likely render rates unaffordable and not reasonably comparable to urban areas—or render the services not reasonably comparable due to much lower amounts of included usage than in urban areas."); *RCA Comments* at 19 (""Funding for middle mile infrastructure is essential to deployment of broadband in Alaska."); and *ARC USF I Comments* at 4-5 ("The *CAF Order* recognizes that many areas of Alaska lack the viable backhaul options necessary to provide broadband services.").

The Commission should identify these areas by their lack of transportation infrastructure, extreme climate, challenging, rugged terrain and other barriers common to remote and insular places. These obstacles make the construction and maintenance of legacy networks much more difficult, time-consuming, and expensive than anywhere else in the country.[33] The cost of purchasing limited rural terrestrial middle mile, or of building out new middle mile in remote areas, must also be considered in the Commission's determination of an area's eligibility for Remote Areas Fund support. This is particularly important where this infrastructure is severely limited or not yet available, its cost will likely be so high that carriers must receive support in order to provide service at all, let alone survive as businesses.[34] The determination of what areas qualify as remote must be based upon the combination of factors that isolate telecommunications consumers.

Substantial investment is needed to maintain reliable voice service and bring broadband to our nation's extremely remote places, and overburdening the Remote Areas

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33 *RCA Comments* at 4-5 ("Alaskans may be left behind by the FCC's reforms to universal service, which do not adequately consider our state's unique challenges. The FCC has heard it many times: Alaska is different. Our vast size, small population, extreme weather and landscapes, and high costs have been described in numerous filings.").

34 The ARC agrees with the Tanana Chiefs Counsel that, at least for Alaska, the Remote Areas Fund must focus on construction and access to middle mile facilities. "TCC suggests that Remote Area Funds be targeted generally toward middle-mile infrastructure deployments, as middle-mile backhaul will most likely be the biggest barrier to meeting the Commission's objectives in extremely remote areas." *See Tanana Chiefs Conference Comments, Report and Order and Further Notice of Proposed Rule Making: Connect America Fund,* WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 17, 2012) *("Tanana Chiefs Conference Comments"*).

Fund with rural areas lacking the barriers to service discussed above will quickly overtax the limited resources available through the Remote Areas Fund.[35] If the Commission does not carefully limit its definition of remote to our country's very highest-cost-to-serve areas, it risks depleting its funds and leaving consumers in the remaining remote, most expensive-to-serve areas out in the cold.

B. The CAF Phase II Cost Model Should Not Arbitrarily Determine Which Carriers Are Eligible For the Remote Areas Fund.

The Bureau's Public Notice suggests that CAF Phase II cost model benchmarks will be used to determine the threshold of what companies may or may not be eligible for high cost support or the Remote Areas Fund.[36] However, using benchmarks within a Price Cap cost model to determine eligibility for Remote Areas Fund support poses substantial problems. Cost of service is one important way to measure an area's "remoteness," but it is simply not a directly reliable translation of an area's need for Remote Areas Fund support. Without some other accounting for the facts and circumstances, including climate, terrain, availability of middle mile, construction costs, etc., and feasibility (or lack thereof) of using satellite or WISP technology, the results of this method could very easily be skewed.[37]

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35 *Transformation Order* at para. 1232 ("If onetime awards were distributed, up to $100 million for a given year, additional money would be available in subsequent years. If ongoing support were awarded, and $100 million were committed for a term of years, it would foreclose the possibility of support for additional areas later identified as "remote" by the model.").

36 *Model Design/Data Inputs Public Notice* at para. 59.

37 Both the RCA and Alaska Carriers have all expressed alarm that the Commission would rely on satellite as a safety net in Alaska. *See e.g. RCA Comments* at 6. "Many Alaska communities will be denied access to universal service comparable to what is enjoyed elsewhere in the nation if they are required to rely on satellite communications only." *Id.* The ARC has

Benchmarks represent an arbitrary mechanism for determining which areas are regulated to the Remote Areas Fund rather than eligible for CAF. As the Nebraska Rural Independent Companies ("NRIC") point out, "[s]o far as NRIC is aware, there was no policy basis for the selection of the cost threshold for defining an area as extremely high cost… It appears the Commission intends to simply pick a number to make the budget work…"[38] The ARC echoes the NRIC's concern that the benchmarks model may mean that rural areas in the lower 48 are forced to utilize Remote Areas Fund support instead of CAF support, when the need for support targeting remote areas is exponentially greater in other, hard-to-reach places like Alaska.

Applying arbitrary benchmarks to determine Remote Areas Fund eligibility is fundamentally unsound public policy, as it flattens and oversimplifies what should be a complex and multifaceted analysis based on the facts of each carrier's need for Remote Areas Fund support. The consumers likely to experience the negative ramifications of this plan are located in the very "rural, insular, and high cost areas" that the Telecommunications Act of 1996 aimed to reach with its promise of universal service.[39]

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provided a study commissioned by TelAlaska supporting this position. *See* Martin & Baugh Consulting Group, *Satellite Internet Review* (Jan. 30, 2012), attachment to Shannon M. Heim, *Ex Parte Notice*, before the FCC (June 12, 2012).

38 *Nebraska Comments* at 4.

39 *See* 47 U.S.C. § 254(b)(3). "Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services', that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas."

The ARC urges the Bureau to reconsider the use of benchmarks to determine eligibility for Remote Areas Fund support.

IV. **<u>Conclusion</u>.**

Commenters have raised several significant issues regarding the CAF Phase II cost model. The application of the CAF Phase II cost model to rural RoR companies threatens to further undermine the stability of high cost support in rural areas and could devastate remote areas of the nation by further diminishing support where it is needed most. The ARC respectfully suggests that the Commission should reconsider using the CAF Phase II Cost Model to determine support levels and eligibility in remote and insular areas.

Respectfully submitted on this 23rd day, July, 2012.

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