

**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

**COMMENTS OF THE ALASKA RURAL COALITION**

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## **I. Introduction.**

The Alaska Rural Coalition<sup>1</sup> (“ARC”) files its Comments in this proceeding pursuant to the *Public Notice* issued by the Federal Communications Commission (“Commission”) on September 12, 2012 seeking input from the public on the Connect America Fund (“Connect America”) Phase II cost model design and inputs.<sup>2</sup> The Commission’s November 18, 2011 *Transformation Order* adopted a method of determining ongoing support to areas served by price cap carriers through “a combination of a forward-looking cost model and competitive bidding” (“Phase II Cost Model”).<sup>3</sup> Though the Phase II cost model is designed for Price Cap carriers, it carries significant implications for rate of return carriers, particularly in Alaska.<sup>4</sup> The ARC focuses its comments on the implications of the cost model on rural areas like Alaska and Rate-of-Return (“RoR”) companies.

The ARC membership consists of most of the rate of return incumbent rural local exchange carriers (“RLECs”) in Alaska, who face the unique challenges of providing services to some of the nation’s very highest-cost areas. The ARC urges the Commission to specifically account for the limitations of Alaska’s current broadband infrastructure, in particular the absence

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<sup>1</sup> 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.

<sup>2</sup> Federal Communications Commission, *Wireline Competition Bureau Announces Connect America Phase II Cost Model Virtual Workshop*, Public Notice, DA-12-1487 (September 12, 2010) (“*Phase II Cost Model Public Notice*”).

<sup>3</sup> 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) at para. 23 (“*Transformation Order*”).

<sup>4</sup> *Model Design/Data Inputs Public Notice* at footnote 60.

of widespread, affordable, and robust middle mile networks, when determining high-cost support for carriers serving Alaska.

**II. The Current Phase II Cost Model Contains Deficiencies For Alaska and Other High-Cost Areas That Will Undermine The Commission’s Goal of Universal Service.**

The Commission seeks comment on whether there is any reason to deviate from the Phase II Cost Model’s approach to determining high-cost support, and whether there are any improvements to this approach that would be beneficial to incorporate.<sup>5</sup> The ARC has examined the Commission’s Phase II Cost Model to the extent possible given its current limitations and listened via telephone to the Commission’s Phase II Cost Model Workshop on September 13 and 14, 2012. The ARC remains concerned that the Phase II Cost Model will not provide a workable method of determining high-cost support for Alaska and other high-cost areas. The ARC agrees with the Rural Task Force that a forward-looking cost model should not be used to determine universal service support for rural carriers.<sup>6</sup> Alaska regulators also concur that the application of a cost model to the allocation of high-cost support in Alaska is inappropriate: “[M]odels based on network structures and technologies applicable in the Contiguous United States would be inapplicable to Alaska.”<sup>7</sup>

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<sup>5</sup> *WCB Cost Model Virtual Workshop 2012, Determining Customer Locations* (Oct. 1, 2012), <http://www.fcc.gov/blog/wcb-cost-model-virtual-workshop-2012-determining-customer-locations>.

<sup>6</sup> Letter from William R. Gillis, Chair, Rural Task Force, to Magalie Roman Salas, FCC, (Sept. 29, 2000) at 20 (“Rural Task Force Final Recommendation To The Federal-State Joint Board On Universal Service”). *See also Federal-State Joint Board on Universal Service Seeks Comment on Rural Task Force Recommendation*, CC Docket No. 96-45, Public Notice, FCC-00J-3 (rel. October 4, 2000).

<sup>7</sup> *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. “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.*

All of the carriers serving Alaska have made clear to the Commission that Alaska lacks critical middle mile infrastructure.<sup>8</sup> Without the resources to build that infrastructure and connect remote areas to the internet backbone, carriers who have invested in their second and last mile networks will be left with considerable stranded investment. Not only will these companies be unable to expand their broadband services, but they will struggle to survive due to the uncertainty of funding to support ongoing maintenance of their existing networks.

The Phase II Cost Model was designed to reflect the status quo in the Lower 48, and accordingly does not account for the unique challenges of serving rural areas.<sup>9</sup> Remote and rural areas differ so greatly in terrain, population and climate that it would be exceedingly difficult to create a forward-looking model that accurately captures all relevant and necessary information. The ARC believes that some form of cost-based support could be a reliable and consistent support mechanism, but the existing models under consideration underestimate the costs of serving Alaska and other rural areas to such a degree that they have the potential to devastate

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<sup>8</sup> *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 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.”).

<sup>9</sup> *Comments of the Nebraska Rural Independent 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) at 2 (“*Nebraska Comments*”) at 4-5.

rural telecommunications markets.<sup>10</sup> The current cost models simply do not include appropriate data or methodology for rural and insular areas like Alaska.

**III. The Cost Model Proposed By ACS Represents A Better Option For Alaska Price Cap Carriers, But Should Not Apply To Rate Of Return Carriers Like The ARC Members.**

The cost model proposed by the ABC Coalition lacks essential data inputs reflecting the actual cost of constructing or maintaining networks in Alaska. The ARC agrees with ACS that application of that model to Alaska would result in results so inaccurate that they could profoundly undermine service to high-cost areas.<sup>11</sup> The ACS cost model proposed in the alternative represents an improvement over the nationwide model proposed by the ABC Coalition. However, the ACS model still understates the actual cost of constructing and maintaining telecommunications infrastructure in Remote Alaska, and was designed for larger Price Cap carriers.<sup>12</sup>

The Commission has indicated that the Phase II Cost Model may play a pivotal role in allocating high-cost support to RoR companies.<sup>13</sup> Although the intention of the current model is to allocate support to Price Cap carriers, the ARC remains very concerned by the possibility that

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<sup>10</sup> *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.”).

<sup>11</sup> *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.

<sup>12</sup> 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.

<sup>13</sup> 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*”) 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.

traditional RoR regulation will be abandoned in favor of application of a cost model that will not account for the unique service challenges and costs of rural and remote carriers. The ARC agrees with other commenters that applying the Phase II Cost Model in rural areas served by RoR carriers could prove disastrous for the future of broadband in currently unserved and underserved remote areas.<sup>14</sup>

RoR carriers' relatively small size and lack of resources compared to Price Cap carriers mean that a cost model will not work to predict adequate levels of support for RoR carriers.<sup>15</sup> Errors in a cost model that may be minor for Price Cap companies would be exponentially magnified if applied to small, RoR 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."<sup>16</sup> The ARC respectfully urges the Bureau to seriously evaluate alternatives to applying the CAF Phase II cost model, in any form, to RoR carriers serving rural and remote areas.

#### **IV. Conclusion**

Applying the Phase II Cost Model to rural RoR companies like the ARC members would further undermine the stability of high-cost support in rural areas. This would devastate the future of service in rural and remote areas by further diminishing support where it is needed most, particularly considering the Model's lack of accounting for the cost of building critical

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<sup>14</sup> *Nebraska Comments* at 4. "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.*

<sup>15</sup> 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.

<sup>16</sup> *RCA Comments* at 14.

middle mile infrastructure. The ARC respectfully suggests that the Commission should reconsider using the Phase II Cost Model in its current form, and should refrain altogether from applying the Model to determine support levels and eligibility for RoR carriers in remote and insular areas.

Respectfully submitted on this 19<sup>th</sup> day, November, 2012.

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