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

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
Connect America Cost Model Virtual Workshop	)	DA 13-276

COMMENTS OF ALASKA COMMUNICATIONS SYSTEMS

Alaska Communications Systems ("ACS")[1] hereby submits these comments in response to the Public Notice "Wireline Competition Bureau Releases Further Discussion Topics And Seeks Additional Comment In Connect America Cost Model Virtual Workshop."[2] In this Public Notice, the Wireline Competition Bureau ("Bureau") solicits input on certain topics related to the development of the forward-looking cost model ("CACM") for Connect America Fund ("CAF") Phase II. ACS comments here on the three new topics added to the virtual workshop discussion: (1) income and property tax, (2) fiber-to-the premises ("FTTP") capital cost inputs, and (3) determining the fraction of supported locations that should be required to have access to broadband at speeds of 6 Mbps/1.5 Mbps or greater.

I. Income and Property Tax

1. Are the average federal and state corporate income tax rates assumed by CACM v2.0 reasonable? Should the Bureau use these income tax input values when it adopts the final version of the CACM?

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[1] In these comments, ACS signifies the four incumbent local exchange carrier ("ILEC") subsidiaries of Alaska Communications Systems Group, Inc.: ACS of Alaska, LLC, ACS of Anchorage, LLC, ACS of Fairbanks, LLC, and ACS of the Northland, LLC.

[2] Public Notice, *Wireline Competition Releases Further Discussion Topics And Seeks Additional Comment In Connect America Cost Model Virtual Workshop*, DA 13-276 (Wireline Competition Bur., rel. Feb. 22, 2013) ("Public Notice").

Without better access to the CACM, including its inputs and assumptions, ACS is limited in its ability to provide analysis of the Property Tax Input values currently used in the CACM.[3] The CACM's only property tax input variable is a "Property Tax Location Adjustment" that is a ratio factor applied to the General and Administrative Expense ("G&A") factor found in the Input file Opex v4, according to a presentation provided at the Bureau's CAF Phase II Model Workshop from September 2012. Notably, the analyses, data and methodologies used to develop the G&A Factor found in Opex V4 and the Property Tax Location Adjustment Factors have not been provided. ACS has calculated its own ratios of property tax to plant balances, but these ratios are not inputs in the CACM. Because the CACM property tax input is a factor applied to the G&A expense factor, ACS's analysis of actual property tax ratios cannot be compared to anything in the model. Although ACS can look at the G&A expense estimate in the CACM, it cannot break that down into its components, such as property tax. As a result, ACS only can compare total G&A. Even doing just that, however, it is clear that the CACM clearly understates G&A expense for Alaska. For example, assuming the CACM's reference to G&A expense consists of the sum of balances of accounts 7240 (Other Operating Taxes) and 6700 (Corporate

[3] ACS repeatedly has observed that the CACM, like the CQBAT model before it, suffers from lack of transparency and inflexibility. The model cannot be thoroughly understood by the public without improved access to the mechanism and greater disclosure of the assumptions that underlie it. It is simply impossible to reproduce or validate the results of the CACM because the public does not have access to all the input development worksheets and the model's algorithms. Without the ability to analyze the underlying algorithms and input development, parties cannot verify its results, nor effectively participate in the model development process. *See Connect America Fund; High-Cost Universal Service Support*, Comments of Alaska Communications Systems, WC Docket Nos. 10-90 and 05-337, at 8-9 (filed Feb. 27, 2013) ("ACS Feb. 27 Comments"); *Connect America Fund; High-Cost Universal Service Support*, Comments of Alaska Communications Systems, WC Docket Nos. 10-90 and 05-337, at 4-5 (filed March 14, 2013) ("ACS March 14 Comments").

Operations),[4] ACS can compare the sum of the balances of these accounts for ACS's operating companies with sums predicted by the CACM for ACS. The CACM estimate may be derived from the Cost Investment Detail output available from the model. This comparison shows that the expense amount estimated by the CACM model is significantly lower than the amount incurred by ACS. However, without access to the data and analyses used to develop the CACM factors, ACS has no way of discovering an explanation as to why the model understates these expenses for ACS, or how ensure the model better reflects ACS's costs.

2. Is CACM v2.0's use of state-specific property tax factors reasonable? Should the Bureau use these property tax input values when it adopts the final version of the CACM?

The use of state-specific property tax location factors is reasonable. The fact that the location factors found on the Ptax v3 input file range from .9 to 1.29 is an indication that a static variable will not account for the differences in property tax liabilities across the country. However, the conclusion that different factors should be adopted for different states does not mean that the proposed factors should be adopted. This proposal suffers from the same lack of transparency discussed above and repeatedly in other ACS filings. Access has not been provided to the underlying data or analyses of any of the inputs used in the model making it impossible for ACS, or anyone else, to thoroughly analyze the validity of the input values.

3. To the extent any commenter argues either income tax or property taxes should be addressed differently in the final version of the model, they should describe in detail their proposal and supply specific input values to be used.

Property tax expenses should be directly and separately estimated in any model the Commission adopts. Furthermore, property tax should be estimated in a manner that is consistent with how it is levied. To the extent that property tax liabilities are calculated based on

[4] The documentation made available to ACS does not contain account numbers.

the value of assets owned, then the model should calculate property tax in the same manner. For example, the ACS Broadband Cost Model, filed in February of 2012,[5] calculates an Other Operating Tax Factor based on the ratio of the balances of ACS accounts 7200 (other Operating Taxes) to 2001 (Total Plant in Service). The factor is then applied to the estimated investment to yield an estimate of forward-looking property taxes. This method is entirely transparent and also allows for the direct calculation of the expense in the same manner it is actually incurred.

II. Fiber to the Premises ("FTTP") Capital Cost Inputs

1. Does CACM v2.0 make appropriate assumptions about the types of hardware that are needed for a FTTP architecture? Are there other types of hardware that should be added, or some types of hardware that should not be included, when the Bureau adopts the final version of the model?

FTTP networks will require optical network terminals at the premise, a fiber drop terminal or pedestal with taps, a splitter and an optical line terminal placed either at the node or the central office. However, missing from the materials provided with the CACM is the analyses that resulted in the specific input values used in the model. ACS has been asking for this data for months. In a detailed, 14-page filing on May 11, 2012,[6] at the request of the Bureau, ACS requested specific information that should be made available for parties to understand the model, including several items related to FTTP capital costs, such as what types of costs went into

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[5] Letter to Marlene H. Dortch, Secretary, Federal Communications Commission, from Karen Brinkmann, Counsel for Alaska Communications Systems, *Request for Connect America Fund Cost Models*, Public Notice in WC Docket Nos. 10-90 and 05-337, DA 11-2026 (Wireline Competition Bur., rel. Dec. 15, 2011), Submitted Pursuant to *Second Protective Order* in WC Docket Nos. 10-90 and 05-337, DA 12-192 (Wireline Competition Bur., rel. Feb. 10, 2012), submitting the ACS model ("ACS Model").

[6] Letter to Marlene H. Dortch, Secretary, Federal Communications Commission, from Karen Brinkmann, Counsel for Alaska Communications Systems, in WC Docket Nos. 10-90 *et al.* (filed May 11, 2012), Submitted Pursuant to *Second Supplemental Protective Order* in WC Docket Nos. 10-90 and 05-337, DA 12-192 (Wireline Competition Bur., rel. Feb. 10, 2012).

averaged figures, what labor and material inputs were used for Alaska, and specific types and quantities of equipment used to develop the FTTP model costs.

No additional information has been made available in response to this request. Without such data and an accompanying analysis, ACS cannot find any basis for the Commission to conclude that the input variables are reasonable. For example, when ACS developed the cost of the optical line terminal and fiber splitter placed in the field it was based on a specific type of equipment configured in a specific manner. Based on the number of subscriber locations in a census block, ACS developed a per subscriber cost. The next step would be to compare ACS's value to that found in the CACM. However, ACS has not been provided access to the methodology for how the CACM uses the input data to develop per location cost. Without adequate access to the model and the development of its inputs, it is essentially impossible for ACS to effectively evaluate the input values. Similarly, changing the equipment and the configuration would also change the cost. In order for ACS, or anyone else, to evaluate whether the fiber to the premise hardware inputs are appropriate more information is required.

Despite the lack of model transparency, ACS has been able to determine that the values it developed for inputs on FTTP architecture are vastly different from those shown in the Capex V9 file. These differences may be caused by the reduced purchasing power of ACS relative to the coalition members that developed the CQBAT model, which formed the basis for the CACM; they may be the result of different configurations; or they may reflect the way the CACM uses the input. These questions about what caused the differences simply underscore the need for fuller disclosure about how the model works.

2. Are the individual input values that CACM v2.0 identifies for each specified category of hardware or infrastructure reasonable? Should the Bureau use these input values when it adopts the final version of the CACM?

ACS has addressed this question more fully in its response to Question 1.

III. Determining the Fraction of Supported Locations That Will Be Required To Receive Broadband At Speeds of 6 Mbps/1.5 Mbps or Greater

1. **The ABC Coalition has argued that carriers that receive Connect America Phase II support will generally choose to build or maintain fiber-to-the-DSLAM ("FTTD") networks rather than build new FTTP networks. How specifically should the Bureau determine what fraction of locations would reasonably be required to receive speeds of at least 6 Mbps/1.5 Mbps? Would it be appropriate to calculate the number of locations likely to receive speeds of 6 Mbps/1.5 Mbps when the network is engineered to deliver at least 4 Mbps/1 Mbps to the most distant supported locations? What assumptions should be made regarding the gauge of the copper and the maximum copper loop length?**

The ABC Coalition's claim that carriers accepting CAF Phase II support will likely build or maintain fiber to the DSLAM networks rather than build new FTTP networks is unfounded. If the distribution of funding is to be determined by a forward-looking model using a greenfield approach, it will encourage both deployment of the most efficient technologies for local conditions. At this time, there is no basis on which to designate an arbitrary number of locations for higher speeds; rather carriers should be required to measure and report speeds they do achieve using CAF Phase II support.

The goal of the CAF Phase II program is to maximize the number of additional customer locations with broadband connections of at least 4Mbps/1Mbps over the next five years. A natural consequence of this effort is that the number of customers served at higher speeds will increase as well. How quickly carriers can provide higher broadband speeds will depend on a number of factors, but an important consideration will be the amount of copper that still remains in their networks after making the initial CAF Phase II broadband investment. The Bureau

correctly recognizes that retrofitting copper networks to achieve a speed of 6Mbps/1.5Mbps will require shortening the copper portion of a FTTD configuration. Carriers would also need to upgrade certain electronic equipment. Ultimately the copper portions of networks will be replaced by fiber.

It is not good public policy to structure support programs that encourage carriers to install additional copper or that require carriers to upgrade copper networks that are functionally obsolete for the purpose of expanding broadband at higher speeds. The model for CAF Phase II support should be structured in such a way as not to incentivize carriers to continue to rely on copper in order to meet an arbitrary benchmark. Rather, carriers should be given flexibility to maximize the use of CAF Phase II support, and report on the results they achieve through the use of these funds.

IV. Conclusion

In these and numerous other filings in these proceedings, ACS has devoted substantial resources to analyzing and responding to the questions posed by the Bureau concerning the CACM. ACS repeatedly points out ways in which the public has only limited access to the CACM, and these concerns have been underscored by other parties.[7] Despite limited access to the inputs and assumptions of the CACM, ACS has demonstrated several ways in which the CACM understates costs in Alaska, such as not accounting for non-fiber middle mile costs, and undersea cable transport costs to connect to Internet access points that are out of state.[8] Problems continue to surface as ACS continues to analyze model runs.

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[7] *See* USTelecom Comments filed in CACM Workshop on "Voice Capability," http://www.fcc.gov/blog/wcb-cost-model-virtual-workshop-2012-voice-capability (filed March 7, 2013).

[8] *See* ACS Feb. 27 Comments.

Consistent with the Act and the Commission's delegation of authority, as well as the Administrative Procedures Act, the Bureau must permit parties to examine the assumptions underlying the model, and the specifics of the cost inputs employed. If the results of the model cannot be validated, and the model itself is inaccessible, the Bureau will not have satisfied the Commission's requirement that "the model and all underlying data, formulae, computations, and software associated with the model" be made available to all interested parties; moreover, the results of the CACM will be indefensible because the Bureau will have failed to ensure that "[a]ll underlying data should be verifiable, engineering assumptions reasonable, and outputs plausible."[9] In short, the CACM in its current form fails to meet applicable legal requirements.

Respectfully submitted,

/s/
Karen Brinkmann
Robin Tuttle
KAREN BRINKMANN PLLC
2300 N Street, NW, Suite 700
Washington, D.C. 20037
(202) 365-0325
KB@KarenBrinkmann.com

Counsel for ACS

Leonard A. Steinberg
General Counsel and Corporate Secretary
Richard R. Cameron
Assistant Vice President and Senior Counsel
ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
600 Telephone Avenue
Anchorage, Alaska 99503

March 25, 2013

[9] *USF-ICC Transformation Order*, 26 FCC Rcd 17663, ¶185 (2011).