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Attachment – CVTC: Construction and Operating Challenges in Alaska

I. INTRODUCTION AND BACKGROUND

On May 9, 2013, Matanuska Telephone Association (MTA) filed a Petition for Clarification for the purpose of requesting the Commission direct the Wireline Competition Bureau (WCB) to either correct the negative Alaskan CapEx coefficient included in the Bureau's Quantile Regression Model, or have the Bureau rerun the Model to remove the erroneous factor in order to not penalize carriers operating in the state of Alaska.

At this juncture, the Bureau QRA Model uses a -0.6223 Alaskan coefficient in its CapEx regression. By using this negative coefficient, the result is both unsupportable and illogical CapEx benchmarks that punish Alaskan carriers that provide service in some of the harshest climates and most challenging environments in the country. This result is contrary to the assertions offered by former FCC Chair Genachowski to Senator Mark Begich of Alaska at the recent Senate Oversight Hearing. The current Commission should work diligently to correct this error in an expedited manner.

Alaska is the largest state in terms of square miles in the country, and presents a population-sparse, geographically challenging and harsh climate environment in which to provide communications. MTA correctly states at page 1 of its filing that "*there is unanimity among FCC Commissioners that the Alaska coefficient used in the Model was supposed to, or should, account for the high costs of deploying broadband in Alaska.*" The purpose of this reply comment filing is to offer arguments and citations in support of the MTA Petition.

II. A VARIETY OF FACTORS ACCOUNT FOR THE HIGH COSTS FACED BY ALASKA COMMUNICATIONS PROVIDERS

In its Petition, MTA identified several factors that contribute significantly¹ to the high costs faced by Alaska carriers including, but not limited to: unique geography and topography, low population density, and harsh climate. Both ASTAC and CVTC demonstrate each of these characteristics. We have also included in a separate attachment pictorial evidence of these conditions faced by CVTC² in their deployment of capital infrastructure, as we did for ASTAC in the initial comment round.

In its comment filing, General Communication, Inc. (GCI) succinctly summarizes the problem addressed with the Matanuska Petition:

Statistical conclusions must be qualitatively evaluated against real-world realities in order to ascertain whether they may be affected by undiagnosed errors, such as from small sample sizes. It is not clear why the Quantile Regression Model yielded a negative coefficient for Alaska, but the stark reality is that it is more expensive to build network in Alaska than in the Lower 48, not less. Nowhere else in the United States has as vast distances combined with low population density, lack of an ubiquitous road system and power grid, harsh climate and short construction season. The Commission should not assume that the Alaska coefficient is accurate when considered against the backdrop of actual experience.

As the Alaska Rural Coalition (ARC) notes at page 4 of its comments: “*The QRA’s Negative CapEx Coefficient for Alaska defies logic and reason. . . It may not be unusual that the development of a new cost model, like the QRA, will include mistakes and miscalculations in its initial form, but the natural resolution should be examination*

¹ At footnote 10 of its Petition, MTA offers a list of arctic conditions that impact Alaskan provider costs: the duration of winter, which limits construction time; snow effects; wind load; absolute temperatures; chill temperature that impacts field work; freeze thaw cycles in the presence of moisture; permafrost; and storm frequency.

² Copper Valley Telephone Cooperative, Inc. (CVTC) is a rural Alaska cooperative serving six exchanges and is headquartered in Valdez, Alaska. CVTC serves some of the most remote and challenging areas in Alaska.

and correction before putting the model into practice. The continued use of the Negative CapEx Coefficient seriously harms Alaska carriers. . . “

We now discuss in turn the three factors described in the first paragraph of this section of the replies.

Unique geography

Alaska is the northernmost state in the United States and is home to some of the most extreme climate conditions found anywhere on the continent. It is the largest state in the U.S. and is larger than the next three largest states combined: Texas, California, and Montana. This type of geography and terrain has resulted in a paucity of road miles for ASTAC and this creates problems for ASTAC in a QRA system that is driven by road miles and road crossings³.

Low population density

The service territory for CVTC is approximately 9,600 square miles. This equates to a service territory that is approximately the size of the State of New Hampshire, but with a much smaller population of approximately 7,000. This equates to a population density of less than one person per square mile.

The ASTAC territory is much larger than any of the New England states. In fact, the ASTAC service territory is larger than the state of Minnesota.

³ The problem with using data based on road miles for ASTAC was previously established in the discussions embedded in the proceeding that granted ASTAC an expedited data waiver request related to the road miles and road crossings variables on November 28, 2012. For a study area such as ASTAC that is larger than the state of Minnesota with only 637 road miles, it is apparent that other data sets based on road mile relationships will be problematic.

Harsh climate

Simple observation indicates that climate in the state of Alaska is harsher⁴ than the vast majority of the lower 48, and the current result of the Bureau's QRA model has produced an inequitable result.

III. THE COMMISSION SHOULD REFLECT AN ADJUSTMENT FOR THE ALASKA CAPEX COEFFICIENT IN 2013

At footnote 2 of its filing, MTA suggests that the Bureau could make appropriate corrections as a part of its effort to develop a methodology that will generate a single total loop cost for each study area beginning in 2014.

While we understand that the WCB staff is working to produce a new result for 2014, it is not acceptable to penalize Alaska carriers during the entirety of 2013 while these data errors are being corrected.

NTCA – The Rural Broadband Association cited at page 3 in their comments an excerpt from paragraph 47 of the February 27, 2013 *Sixth Order on Reconsideration* relevant to this proceeding, discussing the Commission position that “has consistently championed a data driven process;”

...a careful data-driven process is consistent with – and indeed critical to – that implementation [of reform]. We emphasize our commitment to such a process, and we

⁴ Materials must also be transported long distances to Alaska, as many of the materials required for construction are not available locally. Considerations must be made for pre-fabricated parts, as fabrication in the arctic can be an expensive and time-consuming endeavor. The “construction window” is dictated by season when the sun is in the sky for the majority of the 24-hour cycle, and when the ground temperature is raised enough to begin digging. Shipments of materials by barge cannot be made until the sea ice breaks apart which occurs simultaneous with the onset of the construction season. Delays during this time shorten the construction season and cause the remaining work to be more expensive. In order to mitigate delays, more expensive forms of shipping are used to guarantee timely arrival of materials. Projects are often scheduled over multiple years as the construction season is not long enough to complete a full project. Bringing labor in year-by-year adds additional costs to the construction project.

direct the Bureau, as it . . . proceeds with other reforms adopted in the USF/ICC Transformation Order, to continue taking all appropriate steps to seek input from affected stakeholders, and gather relevant data on the effect of reforms as they proceed.

Thus, an interim solution is required that would apply to the 2013 calendar year, by removing the negative CapEx Alaskan coefficient while leaving the Alaskan OpEx coefficient in place pending further review.

IV. THE CHANGES FOR THE ALASKA CAPEX COEFFICIENT SHOULD BE REFLECTED AS PART OF THE 2014 ADJUSTMENTS

It is crucial that the Bureau remedy the situation with respect to the Alaska CapEx variable as a part of its work for 2014 revisions. When a variable behaves opposite to the hypothesized effect, it should be reexamined in an effort to explain the deviation from expected behavior⁵.

NTCA again offers appropriate observations at pages 2 and 4 of their initial comments, summarizing the current state of affairs for QRA implementation:

buttressing the accuracy of underlying QRA data is essential to ensuring that even baseline predictability can be obtained from the methodology. . . the use of incorrect data leads to untenable outcomes. Neither the Commission nor the industry can countenance, nor does the statute permit, resignation to substandard data sets yielding questionable outcomes. . . resulting outcomes are so far afield from the underlying principles and expectations of the program that they can [be] identified readily as either fail points or, more generously, reminders that adjustments must be made in order to achieve rational outcomes.

⁵ Kennedy, P. E. (2002) Sinning In The Basement: What Are The Rules? The Ten Commandments Of Applied Econometrics. *Journal of Economic Surveys*, Vol. 16 No. 4, 569-89.

V. CONCLUSION

The data found throughout this set of reply comments that support the MTA Petition for Clarification provides a strong dose of discomfoting evidence. We respectfully request the Commissioners interject a dose of common sense and logic into the debate on the Alaska CapEx coefficient and grant the interim relief which ASTAC and CVTC request in these reply comments for 2013 and direct the Bureau to make similar adjustments in any 2014 data as requested by MTA.

Respectfully submitted,

Via ECFS at 7/2/13

ARCTIC SLOPE TELEPHONE ASSOCIATION COOPERATIVE, INC.

Stephen Merriam, General Manager
4300 "B" Street, Suite 501
Anchorage, Alaska 99503

COPPER VALLEY TELEPHONE COOPERATIVE

David Dengel, CEO/General Manager
PO Box 337
Valdez, Alaska 99686