



**CONNECTING ALASKA
THROUGH THE “CONNECT AMERICA FUND”**

December 2013



A FEW MILESTONES IN OUR 120+ YEAR HISTORY

- 1893 The Juneau and Douglas Telephone Company (later acquired by Pacific Telecom, and now part of Alaska Communications) begins operations
- 1921 Anchorage Telephone Utility (now part of Alaska Communications) begins operations
- 1949 Telephone Utilities of the Northland (later acquired by Pacific Telecom, and now part of Alaska Communications) begins operations
- 1998 Alaska Communications Systems Group, Inc., (ACS), now Alaska Communications, is formed as a subsidiary of Fox Paine & Company
- 1999 ACS acquires Pacific Telecom, and other CenturyTel (now Century Link) assets (including PTI Communications of Alaska, Telephone Utilities of Alaska, Telephone Utilities of the Northland) and Anchorage Telephone Utility and completes an initial public offering of stock to become the state's first statewide telecommunications company
- 2000 ACS acquires Internet Alaska Inc., the second largest Internet service provider in Alaska
- 2008 ACS acquires the Northstar submarine cable, and builds AKORN, giving Alaska diverse submarine routes to the L48
- 2010 With a re-branding exercise complete, ACS becomes Alaska Communications
- 2013 Alaska Communications launches Alaska Wireless Network joint venture with GCI

WHO WE ARE

A TEAM OF SERVICE PROFESSIONALS CONNECTED TO OUR COMMUNITY

- About 850 employees predominantly in Alaska with 575 Union employees
- For decades we have helped build the infrastructure that connected Alaska, as the local exchange carrier in 73 communities
- Corporate headquarters in Anchorage, 3 regional offices (Soldotna, Fairbanks, Juneau) and Lower 48 regional offices in Hillsboro, Oregon
- A large majority of our employees are represented by IBEW 1547 with whom we enjoy a strong and productive partnership



ENORMOUS SPACES, SPARSELY POPULATED

Geographically Vast

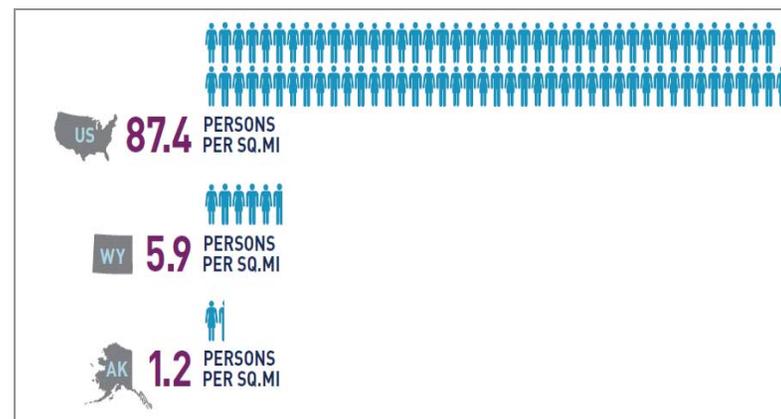
- 570,640 square miles of land represents 16.2% of all U.S. land area
- 6,640 miles of coastline, more than 50% of the entire U.S.
- The state of Alaska is the largest state in the U.S. - more than twice as large as the next largest, Texas
- Not only is Mt. McKinley the highest mountain in North America, but Alaska has 15 other peaks higher than any in the continental U.S.



Source: U.S. Census Bureau, www.census.gov

A Dispersed People

- 2012 population of 731,449, less than 0.25% of the U.S. total population
- Lowest population density of all states in the U.S. with 1.2 residents per square mile. The next closest is Wyoming with 5.85. The U.S. average is 87.4



Source: U.S. Census Bureau, www.census.gov

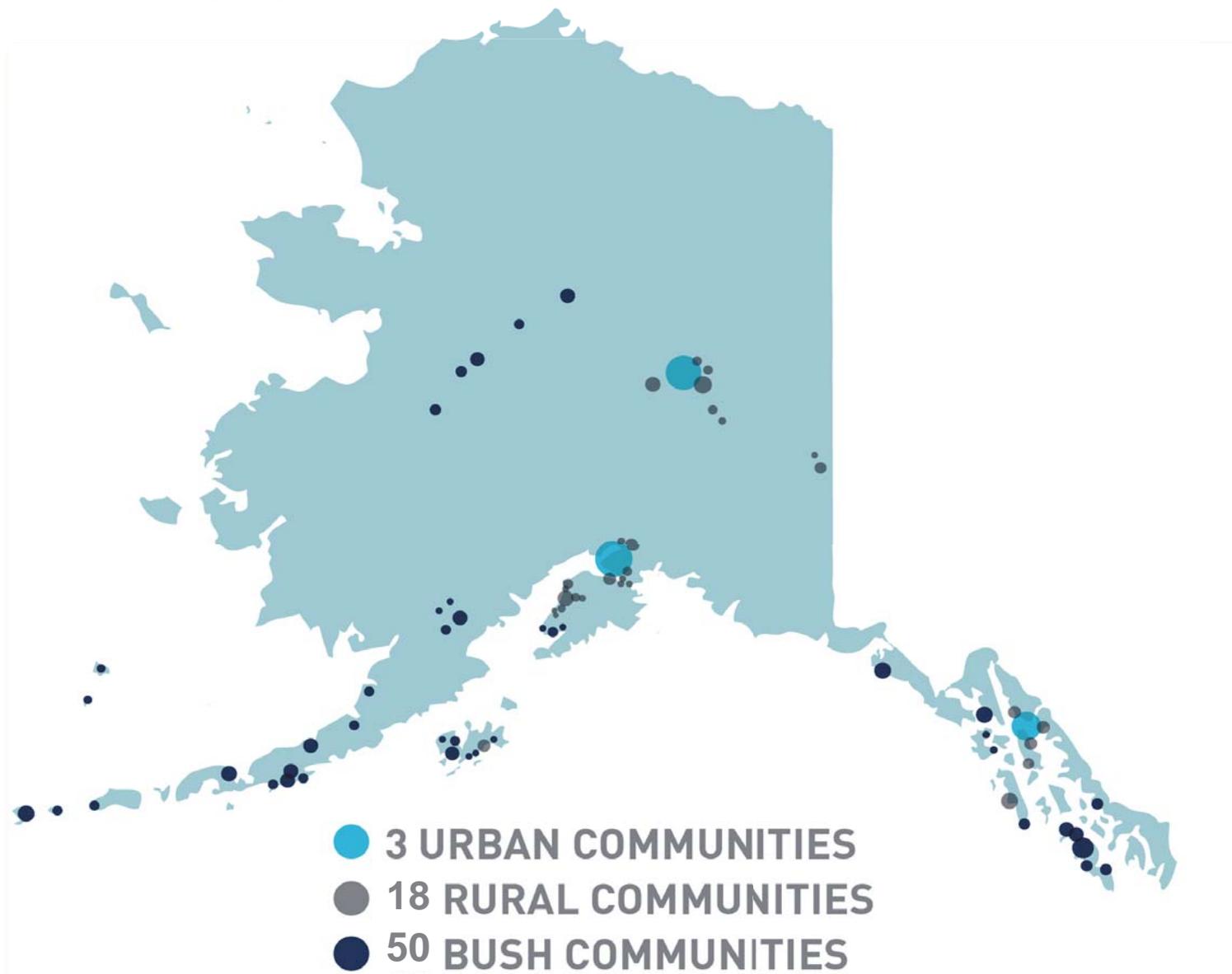
ACS: THE ONLY ALASKA ILEC SERVING URBAN, RURAL AND BUSH COMMUNITIES

- ACS is Alaska's largest ILEC but still a small carrier by national standards. Far from being a monopolistic ILEC, ACS has approximately 20% market share across the communities we serve
- ACS provides urban, suburban and rural service to the state's three largest population centers, Anchorage, Fairbanks and Juneau – ACS of Anchorage is the only Alaska operating company that qualifies as “non-rural” under the Communications Act
- ACS also is the largest *rural* ILEC in Alaska, providing essential connectivity to about 18 rural community hubs such as Delta Junction, Kenai, Kodiak and Sitka
- geographically isolated communities spread out over more than 1,000 square miles, lacking fiber or other fixed terrestrial broadband infrastructure links to other locations
 - Most Bush communities cannot be accessed by road and are off the power grid
 - Bush communities rely on satellite or point-to-point microwave radio communications to connect them to other locations
 - Most Bush locations will not qualify for CAF II support – they will default to the RAF, based on sample runs of the Connect America Model (CAM)

ACS IS THE ILEC IN NEARLY 50 BUSH COMMUNITIES IN ALASKA

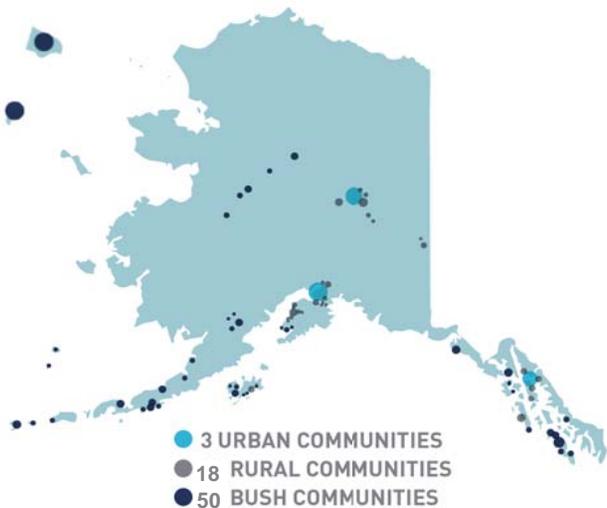
Community	Population	Accessibility	Backhaul Type	Community	Population	Accessibility	Backhaul Type
Chignik Lake	69	Air	Satellite	Old Harbor	208	Air, Water	Satellite
Hughes	78	Air	Satellite	Ouzinkie	178	Air, Water	Satellite
Huslia	299	Air	Satellite	Pedro Bay	47	Air, Water	Satellite
Kaltag	205	Air	Satellite	Perryville	130	Air, Water	Satellite
Port Heiden (Meshik)	101	Air	Satellite	Pilot Point	88	Air, Water	Satellite
Nikolski	16	Air	Satellite	St. George	97	Air, Water	Satellite
Nulato	275	Air	Satellite	St. Paul	479	Air, Water	Satellite
Port Graham	171	Air	Satellite	Thorne Bay	496	Float Plane	Microwave
Port Alsworth	156	Air	Satellite	Point Baker	14	Float Plane	Microwave
Karluk	37	Air, Float Plane	Satellite	Alcan Border	24	Road	Satellite
Northway	76	Air, Road	Microwave	Kokhanok	179	Air, Water	Satellite
Gustavus	460	Air, Water	Microwave	Koyukuk	97	Air, Water	Satellite
Hoonah	753	Air, Water	Microwave	Larsen Bay	89	Air, Water	Satellite
Kake	579	Air, Water	Microwave	Nelson Lagoon	45	Air, Water	Satellite
Kasaan	66	Air, Water	Microwave	Nondalton	164	Air, Water	Satellite
Klawock	813	Air, Water	Microwave	Angoon	466	Water, Float Plane	Microwave
Seldovia	243	Air, Water	Microwave	Coffman Cove	170	Water, Float Plane	Microwave
Yakutat	656	Air, Water	Microwave	Elfin Cove	18	Water, Float Plane	Microwave
Akhiok	82	Air, Water	Satellite	Halibut Cove	77	Water, Float Plane	Microwave
Atka	58	Air, Water	Satellite	Pelican	83	Water, Float Plane	Microwave
Chignik	102	Air, Water	Satellite	Port Protection	53	Water, Float Plane	Microwave
Chignik Lagoon	77	Air, Water	Satellite	Tenakee Springs	145	Water, Float Plane	Microwave
Egegik	113	Air, Water	Satellite	Akutan	1,040	Water, Float Plane	Satellite
English Bay (Nanwalek)	276	Air, Water	Satellite	Port Alexander	62	Water, Float Plane	Satellite
False Pass	37	Air, Water	Satellite				

ACS FIXED SERVICE AREAS



EXAMPLES OF COMMUNITIES WE SERVE – ST. PAUL

St. Paul

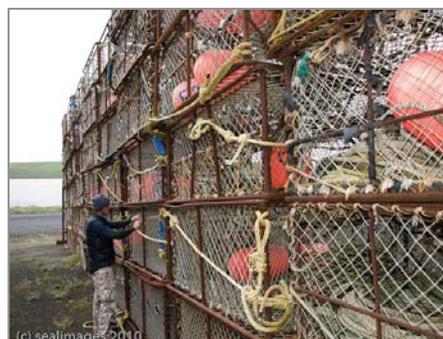


Population: 479

Location: southwest Bering Sea and home of the largest northern fur seal population in the world

Land area: 40.3 sq miles

Nearest Starbucks: 776 miles



UNLESS MODIFIED, CAM CAN HARM UNIVERSAL SERVICE IN ALASKA

- The FCC's 2011 *Transformation Order* calls for universal voice and broadband service
 - Price-cap carriers as a group will receive a substantial increase in high cost support from \$1.0 billion to \$1.8 billion per year for five years
 - The Bureau was directed to model forward-looking costs *at a granular level*
 - The Bureau's model should allocate funding based on the location of high-cost customers that *cannot be served by market forces alone* (e.g., ACS's high-cost territory)
- Current version of the Connect America Cost Model (CAM) fails to provide adequate support for underserved Alaska
 - In Alaska, broadband penetration is the lowest in the nation, per-location costs are high
 - After 2 years of work, the model still fails to capture Alaska-specific costs and conditions although they have been thoroughly documented by ACS
 - Other carriers support ACS's proposed Alaska-specific modifications to the model
 - Based on sample run, CAM v4.0 produces an inadequate \$21M/year, which would leave tens of thousands of Alaska consumers without broadband access – an incongruous result
- Alaska's price-cap customer locations cannot receive the benefit of widespread broadband service without an appropriate increase in annual high-cost support
- The Bureau's recent invitation for subsidized competitor challenges to census block eligibility uniquely threatens support for Alaska, and undermines the policies of universal voice and broadband service for all Americans

CAF II OUTCOMES MUST REFLECT ALASKA CONDITIONS

- ACS has thoroughly documented Alaska-specific conditions
 - ACS has provided extensive forward-looking cost information, and operational, topographical, and geographic details relevant to modeling broadband deployment in the state
 - ACS has fully documented the engineering constraints and costs of constructing, operating and maintaining undersea cables needed to link Alaska to Internet access points in the Lower 48 states
- Increased support is needed to deploy broadband to Alaska high-cost locations
 - Since 2011, ACS has been receiving about \$19 million per year in high-cost support, down from an average of about \$28 million per year between 2005 and 2010
 - Under the latest version of the model, ACS support would make it difficult to maintain existing services, let alone expand broadband
 - If support does not continue to flow in all high-cost areas, including those served by a subsidized competitor, the necessary economies of scale to invest in any new technology will be lacking

1,500 MILES OF SUBMARINE CABLE TO NEAREST INTERNET PEERING POINT IS A REALITY THAT HAS TO BE REFLECTED IN THE CAF II MODEL



ACS HAS PROPOSED VERY DISCRETE MODIFICATIONS TO THE CAM IN ORDER TO PRODUCE REASONABLE RESULTS FOR ALASKA

ACS is reviewing CAM v4.0, made available on Dec. 4, to determine whether the following Alaska-specific modifications advocated by ACS have been incorporated:

1. Undersea cable costs must reflect geographic realities & costs of serving Alaska
 - The annual cost factor in the model should be higher than for terrestrial middle-mile fiber
 - A greater proportion of undersea cable costs should be attributed to ACS customer locations & qualifying ACS services, due to the presence of a federally subsidized competitor and growing residential broadband demand
2. “Soil Type” should be all “Hard Rock” to reflect realities of deploying plant in Alaska
3. CapEx inputs should be increased by 10% to reflect higher costs of purchasing, transporting and installing plant in Alaska
4. 80% take rate assumption is unrealistic given presence of a federally subsidized competitor
 - Unsubsidized competitors must be determined based on who receives subsidies at the start of CAF II, as soon as the model is completed
5. ACS requires a 10-year build-out period to complete the required deployment, in light of the uniquely short construction season and limited labor pool in Alaska

FEDERAL SUBSIDIES PROVIDE AN ESSENTIAL ELEMENT TO ENSURE COMPETITIVE ACCESS TO BROADBAND IN ALASKA

- The Commission’s goal for CAF II is to target support where it is most needed to promote universal availability of voice and broadband – where market forces alone will not do the job – such as Alaska
- The presence of a federally subsidized competitor affects the economics of serving Alaska. Given the nature of doing business in Alaska, federal subsidies are a crucial element to providing competitive alternatives to Alaskans.
- The CAF II model assumes that 80% of the locations served will subscribe to broadband and generate service revenue for the provider
 - Whether or not this is a fair assumption for the nation as a whole, it is unrealistic in Alaska, with a federally subsidized competitor – each competitor cannot achieve an 80% take rate
 - Lowering the take rate would add much-needed additional funding for the provider-of-last-resort to deploy broadband while still maintaining statewide voice service
- If support is denied in areas served by a subsidized competitor, services will be at risk
 - Only the ILEC has the obligation to serve every location upon request, and to accept a statewide commitment to expand service to new locations within five years
 - The competitive ETC has no obligation to serve an entire census block, let alone study area
 - Support should not be denied to the entire census block based on a minimum level of service by a subsidized competitor
- Nevertheless, the Bureau *sua sponte* invited subsidized ETCs to seek reclassification as “unsubsidized competitors” due to the planned phase-down of competitive ETC support over a period of years

WCB RECENT RULE MAKING RUNS CONTRARY TO THE COMMISSION'S INTENT UNDER THE *USF-ICC TRANSFORMATION ORDER*

- On Oct. 31, the WCB invited *subsidized* competitors to challenge the eligibility for CAF II support of census blocks served by price cap carriers – such as ACS
 - Where census blocks do not meet the definition of “served by an unsubsidized competitor” at the time of the challenge process, the Bureau invited competitive ETCs to challenge that classification if the competitor’s high-cost support is scheduled to be eliminated during the five-year term of CAF II (Wireline Competition Bureau Report & Order, DA 13-2115, para. 41)
- The WCB exceeded its authority:
 - The Commission decided that CAF II would be offered to all price cap ILECs for high-cost locations except those served by an *unsubsidized* competitor
 - Which areas are served by an unsubsidized competitor are to be determined “as close as possible to the completion of the model”
 - The Commission delegated to the Bureau the authority to develop an engineering-driven cost model and associated inputs, *not* to decide whether to support price cap ILECs in areas not served by an unsubsidized competitor
 - The Bureau lacks authority to deny support to ACS in areas served by a subsidized competitor, regardless of whether the subsidy is “scheduled” to phase down over time

THE COMMISSION SHOULD DIRECT THE BUREAU TO RESPECT THE POLICY CHOICES MADE UNDER THE *USF-ICC TRANSFORMATION ORDER*

- Significantly, the WCB’s invitation undermines the Commission’s universal service policy
 - The Commission ruled that additional high-cost support is needed in price cap territories to bridge the “rural-rural” divide in locations *where market forces alone are insufficient* to ensure robust broadband and voice service availability
 - Where only subsidized services are offered, *market forces alone are insufficient*
 - Only the price-cap carrier, not the competitor, has ILEC and provider-of-last-resort obligations to ensure universal service goals are achieved
 - Only the price-cap carrier is obligated to provide statewide voice service, and extend broadband to all high-cost locations in a supported census block
 - Sampling has demonstrated that the subsidized competitor fails to serve many locations in census blocks it partially serves
 - Denying price cap carrier support in census blocks served by a subsidized competitor will leave a significant percentage of customer locations unserved

CAF II MUST BE IMPLEMENTED IN 2014

- When the *USF-ICC Transformation Order* was adopted in Fall 2011, the FCC anticipated implementing CAF II in 2013
- Price Cap carrier high-cost support in 2012 and 2013 was frozen at 2011 levels, but the FCC imposed new obligations to *shift* that support to broadband in specified “unserved” census blocks – denying the use of support where it is needed for deployment and maintenance of *voice* networks
- Revenue decline through access charge reductions have not been delayed for Price Cap carriers such as ACS while the FCC staff works on the CAF II rules
- Incremental CAF Phase I support is of very limited use to ACS because of FCC restrictions on its use and unrealistic broadband build-out requirements
- CAF II must be implemented to provide sufficient support in 2014
- The Remote Areas Fund (RAF) also must be implemented in 2014 so Alaska Bush communities will not be stripped of support

CAF II – ACS ADVOCACY HISTORY

ACS has participated at each stage of this proceeding since it began in 2010:

- ACS has submitted extensive analysis to the FCC of the appropriate rules for CAF II and design of the model throughout its development, including:
 - 35+ pleadings addressing design and implementation of CAF II
 - Detailed presentation on Alaska-specific issues in the September 2012 workshop
 - Multiple submissions in the CAF II Virtual Workshop
 - Dozens of in-person visits with staff and commissioners on CAF II
 - ACS proposals have been responsive to FCC staff questions and industry input
- ACS has advocated that the CAF II rules accommodate Alaska-specific conditions
 - ACS submitted detailed network engineering and cost information about Alaska beginning in 2010, filed additional cost data in February 2012 and May-July 2013
 - ACS has submitted detailed Alaska forward-looking costs for analysis by both CostQuest and the other price cap carriers affected by ACS's proposed changes to the model
- ACS has proposed a limited number of specific and conservative modifications to the FCC's model to reflect real-world Alaska conditions
 - The Commission should direct the Bureau to adopt the remaining Alaska-specific changes advocated by ACS



**CONNECTING ALASKA REQUIRES A PRAGMATIC
APPROACH TO PUBLIC POLICY**