

customers that the ILEC might actually obtain in those areas. This is because the model is estimating the costs of a single network, not the costs of a single competitor among many.

ACS' putative reason for departing from this general approach is that GCI receives legacy wireline high cost support, notwithstanding the fact that that support is being phased out. But there is no logical relationship between GCI's receipt of phase-out legacy wireline support and the model's approach to modeling the costs of a single network as opposed to the costs of a single competitor among many.

ACS' argument for allocating increased submarine cable costs to supported broadband and voice services is even more flawed. ACS requests this adjustment because GCI is a "federally subsidized wireline broadband provider" that has also deployed undersea cables in competition with ACS. While it is true that GCI has received wireline high cost support, GCI entered the undersea cable market long before ACS because GCI has long been a facilities-based interexchange provider. ACS entered the undersea cable market to compete with GCI in the enterprise and carrier's carrier markets, first buying an existing undersea cable (Northstar) and then constructing AKORN. These were competitive investments by ACS in competitive services—just as they were for GCI.

The CACM nowhere else attempts to factor in the presence of competing middle-mile facilities. Interexchange middle-mile facilities have long existed in a competitive marketplace, with capacity purchased from a range of middle mile providers. The model does not determine which routes are competitive and which have single sources of supply, and does not rebalance its cost allocations accordingly. There are good reasons for not doing so. In a market with multiple parallel facilities, increasing the subsidy to one provider of those services because of the

presence of the other ignores the fact that parallel competitive facilities usually decrease prices, and it creates the risk of subsidizing the provision of transport for unsupported services.

There is no reason for the Commission to take a different approach with respect to the undersea cables connecting Alaska to the Lower 48. CACM 4.0, like CACM 3.2, assumes that there is a single pair of undersea cables, and constructs its model accordingly. Consistent with the approach of modeling a single, modern, efficient network, the Commission should not skew its allocation of submarine cable costs based on the presence of parallel undersea cable facilities.

#### **IV. GCI'S PROPORTION OF AERIAL AND BURIED/UNDERGROUND PLANT DIFFERS SUBSTANTIALLY FROM ACS', AND FROM THE DEFAULT INPUTS FOR ALASKA IN CACM 4.0.**

CACM uses state-specific default inputs for the mix of aerial, buried, and outside plant. GCI's actual experience with fiber plant in a variety of markets differs substantially from those assumed in CACM 4.0 and those filed by ACS as forward-looking factors in its July 30, 2013 ex parte.<sup>8</sup> In general, GCI's plant mix for fiber networks reflects more aerial and less buried/underground plant than either ACS' factors or the CACM 4.0 default inputs. In Exhibit C, attached, GCI provides these numbers for the Bureau's consideration.

Like ACS, GCI also follows a practice of placing all of its buried fiber in conduits. This provides better ability to repair, as well as to add new service points.

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<sup>8</sup> See CACM 4.0 Default Inputs, *available at*: <http://transition.fcc.gov/wcb/CAM%204.0%20Inputs%20Collection.zip>; Letter from Leonard A. Steinberg, Alaska Communications Systems Group, Inc., to Marlene H. Dortch, Secretary, FCC at 7, WC Docket No. 10-90 (filed July 30, 2013).

**V. THE BUREAU SHOULD DIRECT COSTQUEST TO ALLOW THE “EXTREMELY HIGH-COST” THRESHOLD TO VARY BY STATE, RATHER THAN BEING A SINGLE THRESHOLD FOR THE ENTIRE COUNTRY.**

Because of Alaska’s unique challenges and need for universal service support to close the infrastructure and service gap between the “Last Frontier” and much of the rest of the country, the Bureau should direct CostQuest to revise the CACM so that the “extremely high-cost” threshold can be set at different levels for different states in non-contiguous areas. By making this threshold customizable by state, the model would enable the Bureau or Commission to retarget support in Alaska from price cap areas that already have 4 Mbps/1Mbps broadband service, and that will continue to have that service once GCI’s wireline high-cost support is entirely phased out, to areas that do not yet have broadband service meeting the FCC’s performance standards and that are unlikely to meet those performance standards in the foreseeable future without support.

An elevated threshold for classifying census blocks as “extremely high-cost” in Alaska would have significant benefits. More areas would fall within CAF Phase II, and be subject to the CAF Phase II buildout requirements, rather than being punted to the Remote Areas Fund at some point in the future. For those areas not served by terrestrial networks, *i.e.*, those served only by satellite middle mile, the required performance requirements are substantially lower,<sup>9</sup> but the provider awarded support for those census blocks would be required to ensure that all locations in that block received service at those levels by the end of the five-year buildout period. This will ensure greater broadband access for the same amount of total Alaska CAF Phase II

<sup>9</sup> In areas with no terrestrial backhaul, funding recipients must offer broadband service speeds of at least 1 Mbps downstream and 256 kbps upstream within the supported area served by satellite middle mile facilities. *Connect America Fund, et al.*, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, 26 FCC Rcd. 17,663, 17,699-17,700 ¶ 101.

support, particularly in off-road communities, rather than allowing ACS to use that support to overbuild locations where GCI already offers 100 Mbps service.

The other realities being addressed in the model underscore the need for the ability to make this adjustment. Alaska's uniquely-driven costs—such as the facilities necessary to reach Internet access points in the lower 48, high costs of transporting equipment, high labor costs, costs of long terrestrial middle-mile links, and costs resulting from Alaska's extreme climate—combined with its large size and low population density, render a nationwide, “one-size-fits-all” “extremely high-cost” threshold irrational for Alaska as compared with the rest of the country. In CACM Version 3.2, the Bureau estimated that undersea cable added \$5.20 per location in costs to every Alaska location. If the extremely high-cost threshold is not adjusted to reflect this, then Alaska even more disproportionately is consigned to the Remote Areas Fund for support. Allowing the extremely high cost threshold to be configurable by state would enable the Commission to ensure that more, rather than fewer, Alaskans have access to broadband Internet access services comparable to the rest of the country.

**VI. CONCLUSION**

While CACM 4.0 improves over version 3.2, it still does not adequately reflect the realities of service to Alaska’s areas that are not interconnected by roads. This significantly limits the utility of the CACM to just the project of calculating the amount of support to offer ACS for its state-level election. It should not be used for any other purpose, including to set reserve prices should ACS decline state-level support.

The Commission should also deny ACS’ requests for adjustments to the model that would convert it from a model of a single, modern efficient network to a model of ACS as one competitor among many. ACS’ requested adjustments to the take rate input and to the allocation of submarine cable costs to supported services do not reflect a network-based forward looking cost calculation.

Finally, the Bureau should direct CostQuest to give it the ability to set different extremely high-cost thresholds for each state in non-contiguous areas. Setting a higher threshold for Alaska would improve the operation of the CAF Phase II and better accord with the Commission’s objectives.

Respectfully submitted,



John T. Nakahata  
 WILTSHIRE & GRANNIS LLP  
 1200 18<sup>th</sup> Street, NW Suite 1200  
 Washington, D.C. 20036  
 (202) 730-1320  
 jnakahata@wiltshiregrannis.com

Chris Nierman  
 Adam Taylor  
 GENERAL COMMUNICATION, INC.  
 1350 I Street, N.W., Suite 1260  
 Washington, D.C. 20005  
 (202) 457-8815

*Counsel for General Communication, Inc.*

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**EXHIBIT A**

**FIBER**

Text highlighted pink denotes Confidential Information.  
 Text highlighted yellow denotes Highly Confidential Information.

| Location                      | ACS Study Area                     | % Overhead | %Underground |
|-------------------------------|------------------------------------|------------|--------------|
| Anchorage                     | ACS of Anchorage                   | ■          | ■            |
| Elmendorf                     | ACS of Anchorage                   | ■          | ■            |
| Ft. Rich                      | ACS of Anchorage                   | ■          | ■            |
| Eagle River                   | N/A                                | ■          | ■            |
| Peters Creek                  | N/A                                | ■          | ■            |
| Others outside Palmer/Wasilla | N/A                                | ■          | ■            |
| Girdwood                      | ACS of Anchorage                   | ■          | ■            |
| Palmer                        | N/A                                | ■          | ■            |
| Wasilla                       | N/A                                | ■          | ■            |
|                               |                                    | ■          | ■            |
| Fairbanks                     | ACS of Fairbanks                   | ■          | ■            |
| North Pole                    | ACS of the Northland Glacier State | ■          | ■            |
| SW                            | N/A                                | ■          | ■            |
| Eilson                        | ACS of Alaska Greatland            | ■          | ■            |
| Ft. Greely                    | ACS of the Northland Glacier State | ■          | ■            |
| Ft. Wainwright                | ACS of Alaska Greatland            | ■          | ■            |
| Barrow                        | N/A                                | ■          | ■            |
| Valdez                        | N/A                                | ■          | ■            |
|                               |                                    | ■          | ■            |
| Bethel                        | N/A                                | ■          | ■            |
| Kotzebue                      | N/A                                | ■          | ■            |
| Nome                          | N/A                                | ■          | ■            |
|                               |                                    | ■          | ■            |
| Cordova                       | N/A                                | ■          | ■            |
| Homer                         | ACS of the Northland Glacier State | ■          | ■            |
| Kenai                         | ACS of the Northland Glacier State | ■          | ■            |
| Kodiak                        | ACS of the Northland Glacier State | ■          | ■            |
| Seward                        | N/A                                | ■          | ■            |
|                               |                                    | ■          | ■            |
| Juneau                        | ACS of Alaska Juneau               | ■          | ■            |
| Ketchikan                     | N/A                                | ■          | ■            |
| Petersburg                    | N/A                                | ■          | ■            |
| Sitka                         | N/A                                | ■          | ■            |
| Wrangell                      | N/A                                | ■          | ■            |
| Angoon                        | N/A                                | ■          | ■            |
|                               |                                    | ■          | ■            |
| <b>TOTAL</b>                  |                                    | ■          | ■            |

**EXHIBIT B**



## EXHIBIT C

Text highlighted pink denotes Confidential Information.  
Text highlighted yellow denotes Highly Confidential Information.

