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REDACTED FOR PUBLIC INSPECTION

January 7, 2014

ACCEPTED FILED
JAN - 7 2014
Federal Communications Commission
Office of the Secretary

BY HAND DELIVERY

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street S.W.
Washington, D.C. 20554

Re: *Connect America Fund,* WC Docket No. 10-90

Dear Ms Dortch:

Alaska Communications Systems ("ACS") hereby files Comments in the proceeding cited above, in response to recent Public Notices of the Wireline Competition Bureau ("WCB").[1] These Comments contain information or attachments that are confidential or highly confidential under the terms of the Second Protective Order ("SPO") and Third Supplemental Protective Order ("TSPO") in WC Docket No. 10-90.[2] ACS has marked each page of its Stamped Confidential and Highly Confidential Filing with the legends required in paragraph 9 of the TSPO and paragraph 5 of the SPO. ACS has indicated that the documents marked Highly Confidential under the SPO contain such sensitive information that copying of them is restricted, in accordance with paragraph 6 of the SPO.

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[1] *Wireline Competition Bureau Announces Availability of Version 4.0 Of the Connect America Fund Phase II Cost Model and Seeks Comment on Adopting Current Default Inputs In Final Version of Model*, WC Docket No. 10-90, Public Notice, DA 13-2304 (WCB rel. Dec. 2, 2013); *Wireline Competition Bureau Seeks Comment on Additional Connect America Fund Phase II Issues*, WC Docket No. 10-90, Public Notice, DA 13-2317 (WCB rel. Dec. 3, 2013).

[2] *Connect America Fund,* Third Supplemental Protective Order in WC Docket No. 10-90, DA 12-1995 (Wireline Competition Bur. rel. Dec. 11, 2012) (the "TSPO"); Second Protective Order in WC Docket Nos. 10-90 & 05-337, DA 12-192 (Wireline Competition Bur. rel. Feb. 10, 2012) (the "SPO").

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Marlene H. Dortch
January 7, 2014

Enclosed herewith are one copy of ACS's Stamped Confidential and Highly Confidential Documents (including two disks containing files in Excel spreadsheet format), and three additional copies addressed to Katie King, Dania Ayoubi and Charles Tyler of the WCB. Also enclosed herewith are two copies of the entire filing redacted for public inspection (materials in the attachments that are Confidential or Highly Confidential in their entirety in the redacted version). The redacted version of this filing also is being filed electronically via ECFS. Finally, one copy is being served on CostQuest's counsel in accordance with the TSPO (only the Highly Confidential material being redacted in that copy, pursuant to the SPO).

Please direct any questions regarding this matter to me.

Very truly yours,

Karen Brinkmann

Karen Brinkmann
Counsel to ACS

cc: Katie King, Wireline Competition Bureau
Charles Tyler, Wireline Competition Bureau
Dania Ayoubi, Wireline Competition Bureau
Margaret Avril Lawson, Counsel to CostQuest

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

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90

ACCEPTED / FILED

JAN - 7 2014

Federal Communications Commission
Office of the Secretary

COMMENTS OF ALASKA COMMUNICATIONS SYSTEMS

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January 7, 2014

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ACS Comments January 7, 2014
WC Docket Nos. 10-90, DA 13-2304 & DA 13-2317

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ACS Comments January 7, 2014
WC Docket Nos. 10-90, DA 13-2304 & DA 13-2317

EXECUTIVE SUMMARY

ACS supports several changes in CAM v4.0 that incorporate Alaska-specific inputs and adjustments, but the model still understates the cost of broadband deployment in Alaska, and thus fails to allocate sufficient support to accomplish the Commission's CAF Phase II goal of speeding broadband access to *all* Americans, including those in the least economically attractive areas outside the contiguous 48 states.

The final CAM should be consistent with the Commission's universal service policies of addressing the "uniquely challenging operating conditions" in Alaska, by incorporating Alaska-specific capital expenditure cost inputs for materials and labor. ACS previously filed broadband deployment cost data (drawn from recent construction projects) demonstrating the reasonableness of concluding that capital costs in Alaska are higher than in other parts of the nation, and CAM capex inputs should include Alaska-specific adjustments. None of the cost data that ACS previously has filed was challenged. With this pleading, ACS includes additional Alaska-specific capex inputs in a CAM v4.0-ready format for 18 material and 21 labor items, reflecting ACS's current inventory and installation contracts, and thus the best source for forward-looking material and labor cost data for Alaska.

Under the Bureau's methodology, as a carrier's capex increases, its opex increases in a proportional amount. ACS should be classified as a small carrier, for operating expense purposes, without regard to any arbitrary limits on such expenses.

A more realistic model also would allocate 50 percent – rather than merely 33.5 percent – of ACS's submarine cable costs to CAF-eligible voice and broadband services delivered by ACS.

The final CAM also should be consistent with the Commission's decision to maintain a bright-line distinction between areas that can and cannot reliably be served by market forces alone. The Commission decided that the ability of a service provider to deploy broadband on an *unsubsidized* basis should be a determining factor in any given area. As long as ACS faces *subsidized* competition, the take rate in Alaska must be set at a more realistic level than 80 percent. The model should capture all census blocks that are not "served by an unsubsidized competitor" within the Commission's intended parameters at the time the model is completed. Any suggestion that CAF II support for census blocks served by two or more subsidized competitors may be set aside for auction rather than allocated support under the model would radically depart from the Commission's well-considered policy decisions in the *USF/ICC Transformation Order*, Moreover, the Commission should ensure that any carrier granted support be held accountable, including assuming the POLR and ILEC obligations that historically have

been linked to such support, and the Commission should relieve the ILEC from the same obligations if support is terminated.

ACS believes that CAM v4.0 represents progress toward a more geographically-accurate cost model, but a number of adjustments still must be made. ACS does not believe that the public yet has sufficient visibility into the inputs and methodologies used in the model to verify the results or determine whether they are reasonable. In addition, in the absence of the modifications advocated by ACS, a disproportionate number of Alaska consumers will remain unserved and the Commission's universal service goals will not be met.

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

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90

COMMENTS OF ALASKA COMMUNICATIONS SYSTEMS

Alaska Communications Systems ("ACS")[1] files these comments in response to the Wireline Competition Bureau's requests for comment on version four of the Connect America Cost Model ("CAM v4.0"), proposed default inputs for the model, and the timing of Connect America Fund ("CAF") Phase II implementation.[2]

Overview of Changes in CAM v4.0. On December 2, in the *Version 4.0 Notice*, the Bureau summarized roughly a dozen specific modifications to the model or its inputs incorporated in CAM v. 4.0. On December 4, the Bureau released default inputs

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[1] As used herein, ACS comprises the incumbent local exchange carriers ("ILECs") owned and operated by Alaska Communications Systems Group, Inc. (ACS of Alaska, LLC, ACS of Anchorage, LLC, ACS of Fairbanks, LLC, and ACS of the Northland, LLC).
[2] *Wireline Competition Bureau Announces Availability of Version 4.0 Of the Connect America Fund Phase II Cost Model and Seeks Comment on Adopting Current Default Inputs In Final Version of Model*, WC Docket No. 10-90, Public Notice, DA 13-2304 (WCB rel. Dec. 2, 2013) ("*Version 4.0 Notice*"); *Wireline Competition Bureau Seeks Comment on Additional Connect America Fund Phase II Issues*, WC Docket No. 10-90, Public Notice, DA 13-2317 (WCB rel. Dec. 3, 2013) ("*CAF Transition Notice*").

for CAM v4.0.[3] On December 18, the Bureau released a set of illustrative results under CAM v4.0 for all price cap carriers, and stated that it has updated the methodology documentation for the model.[4] ACS sent a number of questions to CostQuest to clarify how the changes summarized in the *Version 4.0 Notice* were implemented in the model's mechanisms or inputs. Based on the responses received from CostQuest, ACS does not believe that the public has sufficient visibility into the inputs, data sources and methodologies used in the model to conduct a meaningful analysis of CAM v4.0 and its results. For example, questions still remain about the source and development of the installation labor inputs in the capex file – questions it appears that even CostQuest cannot fully answer.[5]

ACS believes that the Bureau has incorporated into CAM v4.0 a subset of the Alaska-specific modifications advocated by ACS, discussed below. These changes appear to yield a modest increase in the amount of high-cost support that would be

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[3] *Wireline Competition Bureau Releases Default Inputs For Connect America Cost Model Version 4.0*, WC Docket No. 10-90, Public Notice (DA 13-2325) (WCB rel. Dec. 4, 2013).

[4] *Wireline Competition Bureau Releases New and Improved Illustrative Results For Connect America Cost Model Version 4.0 and Updated Methodology Documentation*, WC Docket No. 10-90, Public Notice (DA 13-2414, rel. Dec. 18. 2013). On December 2, the Bureau stated that it would shortly post more detail on the architecture, processing steps and data sources for CAM v4.0. *Version 4.0 Notice* at 8.

[5] The company asked how the installation costs in the model's capex were developed. CostQuest explained that it received the labor input values from the ABC Coalition and did not know how they were developed.

allocated to ACS. To the extent that this is accurate, ACS supports the changes to the model discussed herein, with the exceptions noted below. ACS continues to advocate the incorporation of a limited number of other state-specific changes to the model, the support for which is set forth herein, and in ACS's prior filings in this docket.

ACS concludes that, at this point, CAM v4.0 continues to understate the costs of providing universal voice and broadband service in ACS's Alaska service territory, and thus fails to allocate sufficient support to accomplish the Commission's CAF Phase II broadband goal of addressing the "rural-rural divide" for broadband access. In the absence of the modifications advocated herein, a disproportionate number of Alaska consumers will remain unserved and underserved. ACS therefore respectfully requests that the Bureau adopt the Alaska-specific changes to CAM v4.0 discussed below. Doing so will help ensure that the final CAM serves the Commission's universal service policies of addressing the "uniquely challenging operating conditions" in Alaska,[6] and maintaining a bright-line distinction between areas that can and cannot reliably be served by market forces alone.[7]

ACS Treated as Small Carrier. In CAM v4.0, in response to a request from ACS, ACS is treated as a "small" carrier rather than a "medium" carrier for the

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[6] *USF/ICC Transformation Order,* 26 FCC Rcd 17663, ¶507 (2011).
[7] *Id.*, ¶116.

purposes of calculating its operating expenses ("opex").[8] The Bureau tentatively concludes that it would be reasonable to treat ACS as a "small" carrier, but that it "would have to reconsider" this treatment in the event of any change in capital expense ("capex") assumptions because an increase in capex may lead to "opex levels that are unreasonably high."[9] ACS supports the Bureau's shifting ACS from the medium to the small carrier category. However, ACS does not understand the logic in the Bureau's reasoning that ACS's opex levels might be deemed "unreasonably high" if its capex were to be raised to particular levels. The Bureau's model treats opex for all price cap carriers "as a weight on the amount of investment."[10] Thus, as a carrier's capex amount increases, its opex increases in a proportional amount. The Bureau does not explain why it might feel compelled to modify this approach for ACS. This is wrong as a matter of economics and it is unsupported by Commission precedent.

ACS has demonstrated that it merits small carrier treatment because the relationship between its level of investment and its costs more closely resembles that of other small carriers than those of medium-sized carriers.[11] ACS has explained that the

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[8] *Version 4.0 Notice* at 5.
[9] *Id.* at n.15.
[10] *Id.*
[11] *See, e.g.,* Letter to Marlene H. Dortch, FCC Secretary, from Leonard A. Steinberg and Richard R. Cameron, ACS, WC Docket Nos. 10-90 & 05-337, pp. 18-22 (filed July 30, 2013) ("ACS July 30 Letter").

model should impute higher opex to ACS because its actual, forward-looking ratio of operating costs to investment *is* higher than that of the other price cap carriers in the medium-sized category.[12] This is due to the many unique factors that increase the costs of operating telecommunications and broadband networks in Alaska, including the costs of labor, transportation, and energy, as well as aging plant and back-office systems.[13] Moreover, ACS expects that its line count will be in the small carrier range shortly after CAF Phase II goes into effect.[14] The Bureau should calculate opex for ACS based on these economic factors, and not based on any arbitrary notion of "high" or "too high" costs.

State-Specific Capex Input Source. The Bureau reports that CAM v4.0 incorporates a state-specific capex table and toggle "to provide an input source for situations in which a state-specific capex input is required."[15] However, it does not appear that any state-specific capex information for the state of Alaska has been incorporated into CAM v4.0. ACS requests that Alaska-specific capex inputs be incorporated prior to finalizing the input set for the CAM.

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[12] *Id.*
[13] *Id.* at 21-22.
[14] *Id.* at 18.
[15] *Version 4.0 Notice* at 8.

The Commission's delegation of authority to the Bureau in the *USF/ICC Transformation Order* requires that, through the modeling process, the Bureau determine the location-specific costs of deploying broadband networks in rural and remote areas.[16] Where costs – such as the cost of materials purchased as part of broadband capital expenditures, and the related installation labor costs associated with capital investment in the network – materially differ in a particular area from those of other areas, the Bureau should incorporate an adjustment for the outlying area into the model.

ACS has documented the reasons why broadband-related capital expenditures in Alaska are inherently more expensive than in other states. ACS has filed state-specific capex data reflecting ACS's forward-looking costs to obtain broadband materials, transport them from suppliers in the Lower 48 states to a port in Alaska and thence to ACS's service territories across the state, and deploy them in unserved and underserved locations.[17] In the past, ACS has asked that the Commission incorporate a ten percent increase in capex for Alaska to reflect these state-specific variations from the

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[16] *USF/ICC Transformation Order* ¶188.

[17] The detail provided by ACS documents both material and labor costs in Alaska based on actual invoices from vendors used by ACS on recent fiber deployment projects. ACS July 30 Letter at 15. *See also* Letter to Marlene H. Dortch, FCC Secretary, from Leonard A. Steinberg and Richard R. Cameron, ACS, WC Docket Nos. 10-90 & 05-337, pp. 6-9 (filed July 9, 2013) ("ACS July 9 Letter"). As discussed below, ACS believes that precedent and public policy support incorporating ACS's cost of materials in the state-specific capex inputs to the model, as the Bureau has done with the Virgin Islands capex, as well as ACS's cost of labor associated with the installation of broadband.

national average costs.[18] However, in the most recent model changes, a state-specific capex toggle has been incorporated and it now is possible for the Bureau to model Alaska-specific expenditures for materials to be used for broadband-capable network deployment. ACS requests that this be done prior to finalizing the CAM and its inputs, consistent with the Bureau's treatment of capex for the Virgin Islands,[19] and as required by the *USF/ICC Transformation Order*.

In this filing, ACS includes a V21 capex input file for Alaska, which includes eighteen individual material input changes representing the inventory price for network plant materials recently purchased, such as fiber optic cable.[20] This V21 file was used to populate the State-Specific Capex V1 file also included herewith. ACS simply modified the State-Specific Capex V1 file released by the Commission on December 2, 2013 (containing data for the Virgin Islands) to add Alaska-specific inputs. The V1 file may be incorporated into a CAM v4.0 solution set as described in the *Version 4.0 Notice*.[21] Including this State-Specific Capex V1 file into a solution set will allow a user

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[18] ACS July 9 Letter at 6; ACS July 30 Letter at 18.
[19] *Version 4.0 Notice* at 5.
[20] Files provided in Confidential Attachment A-1 (files marked "E") list the 18 individual material cost inputs to be changed, the location of each in the V21 file, the default values, the Alaska-specific values, and the inventory ID code for the material. *See* ACS Confidential Attachment A-1 & Attachment B, Declaration of Kevin Kuper.
[21] *See Version 4.0 Notice* at 5.

to run an Alaska-specific report by setting the capex input toggle to "State Specific" and the state to "AK" in the model's solution set creation process.

In addition to the Alaska-specific material cost inputs, ACS provides herewith Alaska-specific installation labor costs associated with broadband deployment.[22] ACS notes that the Bureau has declined thus far to incorporate state-specific capex-related labor costs in the CAM, even for the Virgin Islands.[23] The CAM currently includes a regional cost factor adjustment in lieu of state-specific adjustments. ACS believes that the Bureau should set the regional cost factor for Alaska to "1" and incorporate the 21 state-specific labor cost adjustments provided herewith, as well as the 18 material cost adjustments, in the capex calculation. The record shows that labor costs are a significant component of capital expenditures in broadband deployment, and ACS believes that the adjustments proposed herein represent the only evidence in the record

[22] Files provided in Confidential Attachment A-1 (files marked "E-L") list the 21 individual installation cost inputs to be changed, the location of each in the V21 file, the default values, the Alaska-specific values, and the inventory ID codes for each input. *See* ACS Confidential Attachment A-1 & Attachment C, Declaration of Dale Patrick.
[23] The Bureau states that the state-specific V1 file includes Vitelco's proposed changes to capex material cost inputs but not the corresponding changes to the installation labor cost inputs proposed by Vitelco. *Version 4.0 Notice* at 5.

that captures actual Alaska-specific forward-looking capital costs for broadband deployment.[24]

While the baseline labor inputs used in CAM 4.0 for the lower 48 states reflect data provided by the ABC Coalition members, and may be presumed to reflect actual labor costs that *they* experience,[25] no Alaska data were incorporated in those inputs. Therefore, the baseline labor inputs are not sufficient for calculating cost-based support for Alaska.

The Bureau indicates that it did not include Vitelco's proposed labor cost changes in Version 4.0 because it is not convinced that broadband installation labor costs are higher in the Virgin Islands than elsewhere in the United States. ACS provides herewith a representative outside plant installation contract for its lowest-cost district to show that its installation labor costs are greater than the default CAM 4.0 values.[26] ACS submits that actual contractor prices, with project work orders showing in detail its costs

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[24] The reasonableness of the Alaska-specific cost data that ACS previously has filed in this proceeding has not been challenged. ACS nevertheless provides the attached inventory-based state-specific capex labor costs (files marked "E-L") separately from the cost of materials only (files marked "E") so that the Bureau may separately analyze the impact of each. *See* Declaration of Dale Patrick, Attachment C.

[25] As noted above, ACS does not believe that the development of the installation labor inputs in the capex file used in CAM v4.0 has been fully explained. *See supra,* note 5. Based on the available information, however, ACS's methodology is consistent with that of the ABC Coalition in that it is based on ACS's actual installation invoices.

[26] *See* Highly Confidential Attachment A-2 & Declaration of Dale Patrick, Attachment C.

for competitively bid installation work, provide compelling and sufficient evidence of the above-average cost of the specialized labor required to install state-of-the-art telecommunications networks in insular areas.

Moreover, ACS has compared the unit definitions for installation costs set forth in its invoices with the definitions used by CostQuest, to ensure that an "apples to apples" comparison can be made. For example, in the Central District (Anchorage and neighboring areas) **[REDACTED]** for the per-strand, per-splice cost of fiber installation.[27] In the Interior District (Fairbanks and surrounding areas) the cost per strand for a fiber splice is **[REDACTED]**.[28]

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[27] In Highly Confidential Attachment A-2, ACS provides the currently effective contract for outside plant installation in ACS's Central District showing that the cost to ACS for Items 258 and 259 (fusion and mechanical splice on fiber cable) is **[REDACTED]** per splice. As discussed below, **[REDACTED]** is not the highest price ACS pays for the specialized labor of fiber optic cable splicing required for broadband installation, but ACS conservatively proposes this figure be used for the labor input for Items 258 and 259. *See* Confidential Attachment A-1.

[28] In Highly Confidential Attachment A-2 ACS provides the currently effective contract and invoice showing that the cost in ACS's Interior District for Items 258 and 259 (fusion and mechanical splice on fiber cable) is **[REDACTED]** per splice for **[REDACTED]** splices, for a total of **[REDACTED]**.

ACS verified that its contractor employs the definitions used by the Rural Utilities Service ("RUS") – the same classifications used by small telephone companies and state regulators to ensure uniformity in network cost development. RUS defines mechanical and fusion (HO1 and HO2) fiber optic cable splicing as follows:

> Consists of all labor and material and/or testing necessary to complete a single fiber optic splice, complete a ribbon fiber optic splice using mass splicing, to connect fiber-terminated ports using patch cords, or to terminate one optical splitter pigtail in accordance with RUS Splicing Standard Bulletin 1753F-401(PC-2). The labor must include initial measurement, minimizing the attenuation, splicing and stowing the spliced fiber or patch cord/pigtail in a fiber organizer. The labor and material for the fiber organizer is part of the appropriate splice closure unit or fiber patch equipment.[29]

ACS understands from the Capex V21 file and discussions with CostQuest that the fiber installation costs included in the CAM capex inputs are based on a per-strand cost, just as defined by the RUS. Thus, the input value of $9.72 per single-strand fiber splice fond in the CAM v4.0 inputs is far too low for Alaska, compared to the

[REDACTED] per-strand, per-splice fiber installation cost that ACS has documented. Such evidence reliably demonstrates that the CAM 4.0 default installation labor costs are significantly less than the costs

[29] RUS Bulletin 1753F-150.

actually paid by ACS, and Alaska-specific labor inputs should be incorporated in the CAM capex inputs.

The Alaska-specific material inputs provided herewith were developed from ACS's inventory and purchasing system. This system tracks the price of each piece of equipment and quantity of materials based on a moving average price valuation method or labor contract entered into by ACS. The data found in this system are developed from individual purchase orders and vendor invoices showing the amounts actually paid by ACS for materials and installation for broadband deployment. They thus provide the most compelling source of forward-looking cost of materials and labor for the capex calculations in the model.[30]

ACS believes that running Alaska-specific input values in the State-Specific Capex file will confirm the reasonableness of ACS's proposed Alaska-specific capex, plant mix and terrain adjustments. The Bureau should find that it would be reasonable to assume that certain capital expenditures for materials and labor would be more expensive in Alaska, as reflected in the 18 material cost input changes and the 21 labor cost input changes contained in the Alaska State-Specific Capex file included here.

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[30] Declaration of Kevin Kuper, Attachment B. In addition to the inventory-derived input set, ACS provides documentation of the invoices supporting its current inventory costs, showing the source of the 18 Alaska-specific input values included herewith in the modified State-Specific Capex V1 file. *See* ACS Highly Confidential Attachment A-2.

The Bureau should incorporate these state-specific capex inputs in the final version of the model.[31]

The Commission directed the Bureau to model costs at a granular level and to "accurately capture the true costs of subscale markets."[32] ACS has demonstrated that Alaska costs and circumstances are sufficiently different from other states that they qualify as "in which a state-specific capex input is required."[33] Accordingly, ACS respectfully requests that the Bureau direct CostQuest to run CAM v4.0 using Alaska-specific capex information from the state-specific capex workbook provided by ACS.[34]

Allocation Change Necessary To Capture Alaska-Specific Costs of Submarine Cables Used For Middle Mile and Connectivity To Internet Access Points. CAM v4.0 includes adjustments to the submarine cable capex costs, including additional undersea connections and beach manholes on intrastate middle mile routes linking Juneau

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[31] The Bureau tentatively concludes that it would be reasonable to assume that certain capital expenditures for materials would be more expensive in the Virgin Islands. *Version 4.0 Notice* at 5. ACS requests that the Bureau make the same finding with respect to Alaska, and notes that ACS submitted detailed information about Alaska-specific capital expenditures some months before Vitelco submitted its capex data. *See* ACS July 9 Letter, *supra*, note 17. The data submitted herewith in Confidential Attachment A-1 are provided in a format consistent with that provided by Vitelco. *See* Declaration of Kevin Kuper, Attachment B.
[32] *USF/ICC Transformation Order* ¶188
[33] *Version 4.0 Notice* at 5.
[34] ACS notes that the company's representatives discussed with CostQuest the addition of Alaska-specific data to the State-Specific Capex V1 input file, to ensure that the data enclosed herewith could readily be incorporated into the model.

and the Kenai Peninsula to Anchorage.[35] ACS supports these adjustments as necessary to ensure the model captures real-world constraints in providing Internet connectivity for a number of Alaska communities.[36]

ACS believes that an additional modification remains necessary for the model to fairly capture Alaska-specific submarine cable costs used for intra-state middle mile transport and interstate connectivity to the nearest Internet access points. Specifically, CAM v4.0 fails to allocate to supported broadband and voice services a sufficient proportion of the total forward-looking capital costs of the submarine cables used by ACS for both intrastate middle mile and interstate Internet connectivity.

As previously discussed by ACS, the CAM allocates 50 percent of the total forward-looking submarine cable capex for Alaska to covered voice and broadband services, and 50 percent to other services not supported by CAF Phase II, such as special access services for enterprise and wholesale customers, and wireless backhaul service. In addition, the CAM allocates the cost of the submarine cable among all customer locations in Alaska, including those served by other ILECs. Because ACS serves roughly 67

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[35] *Version 4.0 Notice* at 2; *see also id.* at 7 (noting that these changes impact capex calculation for non-CONUS carriers).

[36] *See, e.g.,* Letter from Karen Brinkmann, Counsel for ACS, to Marlene H. Dortch, FCC Secretary, WC Docket No. 10-90, at 3 (filed Oct. 28, 2013) ("ACS October 28 Letter"); Comments of ACS, WC Docket No. 10-90, at 7-8 (filed Sept. 12, 2013) ("ACS September 12 Comments").

percent of the customer locations in Alaska, the CAM allocates only approximately 67 percent of the CAF-eligible costs of the cable to ACS. Multiplied, these two calculations yield an allocation of only 33.5 percent of the total forward-looking submarine cable capital costs to the delivery of CAF-supported voice and broadband services by ACS.[37]

This cost allocation is unreasonable in that it assumes that ACS is recovering 66.5 percent of these submarine cable costs from other sources. However, ACS is not the only carrier providing transport between Alaska and the Lower 48 states; ACS has demonstrated that a competitor carries about half of the CAF-ineligible traffic such as enterprise, wireless backhaul, and other wholesale traffic, and therefore a more realistic model would allocate 50 percent of ACS's submarine cable costs to CAF-eligible voice and broadband services delivered by ACS.[38] ACS respectfully urges the Bureau to incorporate this change into CAM v4.0.

The Model's 80 Percent "Take Rate" Is Unrealistic For Alaska. The model uses a "take rate" or rate of subscription of 80 percent of all locations in census blocks covered by the model, and an assumed average revenue per unit of subscription ("ARPU"), to define the point at which a location is sufficiently costly that it should qualify for CAF II support. In Alaska, ACS competes with another federally subsidized

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[37] ACS September 12 Comments at 12-13.
[38] *Id.* at 14-17.

provider for local voice and broadband customers. The assumption in the model, that 80 percent of the market will be captured by the single provider receiving CAF support, is simply not realistic in Alaska, where two providers receive federal high-cost subsidies. *Both* competitors cannot have 80 percent subscription rates in census blocks where both offer service. As CAF Phase II is implemented, ACS will compete for broadband customers with a provider that will continue to receive federal subsidies for most of the CAF II funding period, but will not labor under the same incumbent local exchange carrier ("ILEC") and provider-of-last-resort ("POLR") regulatory obligations as ACS.[39] This subsidized competition should be taken into account in setting the take rate for Alaska.[40]

The Commission previously considered alternatives for determining how to allocate support for price cap areas, and determined that the ability of a service

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[39] *See, e.g.,* ACS Application for Review, WC Docket No. 10-90 (filed Nov. 26, 2013) at 9-12 ("ACS Application for Review") (GCI is not subject to the same obligations or accountability as ACS yet it remains subsidized, and will be for years to come, in ACS's service territory); ACS Reply to Oppositions To Application for Review, WC Docket No. 10-90 (filed Dec. 23, 2013) at 3-5 ("ACS AFR Reply") (though subsidized, GCI provides service in only portions of census blocks and is not accountable in the ways that ACS would be under CAF II). *See also* ACS October 28 Letter, *supra* note 36, at 1-2 (advocating a lower take rate and lower support threshold for Alaska); Letter from Richard Cameron, ACS, to Marlene H. Dortch, FCC Secretary, WC Docket No. 10-90 (filed Aug. 24, 2013) (same).

[40] *See, e.g., USF/ICC Transformation Order* ¶165 (CAF was not created on a blank slate but against a backdrop of ILEC legacy regulations, including state carrier-of-last-resort obligations).

provider to deploy broadband on an unsubsidized basis should be a determining factor in any given area. Thus, high-cost census blocks served by a price cap ILEC will be ineligible for CAF Phase II only where an *unsubsidized* competitor provides voice and broadband meeting the Commission's performance requirements.[41] The Commission "carefully weighed the risks and benefits of alternatives, including using competitive bidding everywhere for the distribution of CAF support."[42] It also considered making ineligible all areas served by a cable-based broadband provider.[43] It rejected both proposals, opting instead for a bright-line distinction between areas that could not be reliably served by market forces alone – those not served by an unsubsidized competitor meeting the Commission's minimum performance standards – and other areas.[44] For this reason, as long as ACS faces subsidized competition, the take rate in Alaska must be set at a more realistic level.

Unless this error in the CAM is corrected, the take rate assumption of 80 percent will do permanent damage to the prospects for broadband deployment in the Alaska price cap service areas.[45] Using this unrealistic 80 percent take rate, the support allocated to Alaska by CAM v4.0 is patently insufficient for providing broadband

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[41] *Id.* ¶¶170 *et seq.*
[42] *Id.* ¶ 174.
[43] *Id.*, ¶170.
[44] *Id.* ¶¶116, 159.
[45] *See* ACS AFR Reply at 4-5.

connectivity in 100 percent of unserved locations in the price cap territories of Alaska.[46] ACS respectfully requests that the Bureau address this anomaly in the model.

Removal From SBI Data of Competitors That Are Receiving Subsidies Or Not Providing Voice Services. ACS supports the updated broadband coverage data in the CAM, so that census blocks are not deemed "served" and made ineligible for CAF II support merely due to the presence of competitors that do not offer voice service, as required by the Commission's rules, or that are receiving subsidies.[47] The Commission's rules require that CAF Phase II support be offered, and the model be used to define a support amounts, for all census blocks in price cap ILEC service areas that are above the support threshold and below the threshold for the Remote Areas Fund, and that are not "served by an unsubsidized competitor."[48] To exclude a census block from CAF Phase II eligibility, an unsubsidized competitor "must be offering broadband and voice service that would meet the Commission's requirements for price cap carriers receiving model-based support."[49] ACS therefore commends the Bureau for ensuring that the model captures all census blocks that are not "served by an unsubsidized competitor" within the Commission's intended parameters at the time the model is completed. For the reasons

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[46] *See* ACS September 12 Comments at 13.
[47] *Version 4.0 Notice* at 7.
[48] *See, e.g., USF/ICC Transformation Order* ¶156.
[49] *Connect America Fund, Phase II Service Obligations Order*, WC Docket No. 10-90, DA 13-2115, ¶40 (Wireline Competition Bur. rel. Nov. 1, 2013).

ACS has articulated elsewhere in this docket,[50] the Bureau now should confirm that the determination whether a competitor is subsidized or unsubsidized will be made at the time the model is completed, based not on whether the competitor may become unsubsidized in the future, but on whether the competitor is subsidized *at that time*.[51]

State-Specific Outside Plant Mix & Terrain. The Bureau states that CAM v4.0 incorporates state-specific plant mix values for non-CONUS price cap carriers including ACS.[52] As the Bureau notes, ACS has advocated a forward-looking plant mix due to changes in the law requiring significant reductions in aerial plant, and the different requirements of deploying fiber and copper outside plant.[53] However, the values incorporated into the model are a mix, according to the Bureau, reflecting both the inventory of existing plant mix and forward-looking reductions in aerial outside plant and

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[50] *See* ACS Application for Review & ACS AFR Reply, *supra,* note 39.
[51] Any suggestion that CAF II support for census blocks served by two or more subsidized competitors may be set aside for auction rather than allocated support under the model would radically depart from the Commission's well-considered policy decisions in the *USF/ICC Transformation Order*. Therefore such a policy change would require prior notice and comment and action by the Commission itself. *See* ACS Application for Review at 5-10; ACS AFR Reply at 5 & n. 20. Moreover, as with all carriers receiving universal service support, the Commission should ensure that any carrier granted support by auction or otherwise be held accountable, including assuming the POLR and ILEC obligations that historically have been linked to such support, and the Commission should remove such obligations from ILECs from whom support is withdrawn. *See Connect America Fund,* Comments of ACS, WC Docket No. 10-90, at 13 (filed March 28, 2013).
[52] *Version 4.0 Notice* at 3.
[53] *Id.* at 3 & n. 7 (citing ACS filings concerning plant mix in Alaska).

increases in buried and underground plant.[54] The Bureau does not explain why the plant mix is not entirely forward-looking.

Moreover, the Bureau offers only a cursory explanation of its sample allocation of 10 percent aerial, 60 percent buried and 30 percent underground plant – for example, stating that an efficient carrier would choose to bury plant rather than build underground plant because the latter is more costly, therefore CAM v4.0 assumes that the amount of underground plant would not exceed the current percentage in a carrier's network.[55] ACS believes this explanation is arbitrary at best. In particular, as concerns the unique broadband deployment environment in Alaska, the Bureau does not state why it has not accepted the evidence submitted by ACS that underground plant percentages are *increasing* on a forward-looking basis.[56] Moreover, ACS submitted plant mix values at a more granular level because they can vary significantly among different plant types (distribution, feeder and inter-office) and in different deployment environments (urban, suburban and rural).

Thus, ACS believes that the Bureau's explanation concerning plant mix fails to justify its decision concerning state-specific plant mix. Moreover, while the Bureau notes that CAM v4.0 provides for some buried plant to be placed in conduit

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[54] *Id.* at 3-4.
[55] *Id.* at 4.
[56] *See, e.g.,* ACS July 30 Letter at 5-10.

systems,[57] no detail is provided that would allow parties to verify whether the precise solution crafted in CAM v4.0 is a reasonable one. ACS observes that the illustrative results made available by the Bureau do not appear substantially different from what ACS would have expected using its proffered plant mix, but ACS cannot determine whether the results are or are not reasonable without more information about the precise inputs and how they are used in CAM v4.0.

Similarly, with respect to terrain, ACS does not believe the Bureau has adequately explained why it rejects ACS's request for a state-specific finding that Alaska be considered as wholly "hard rock" due to the extraordinary difficulties of deploying outside plant in a state characterized by permafrost, glaciers, wetlands, roadless communities, and other unique environments.[58] The Bureau nevertheless indicates that an increased proportion of Alaska will likely be treated as hard rock under the revised methodology.[59] Again, while ACS believes that this change is a step in the right direction, this explanation remains inadequate.

Cost of Money. ACS does not believe the Bureau has undertaken a thorough analysis of the actual costs of equity and debt for the price cap ILECs, nor

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[57] *Version 4.0 Notice* at 4 & n. 7.
[58] *See* ACS July 30 Letter at 11-14.
[59] *Version 4.0 Notice* at 5 & n.14 (under CAM v4.0, in non-CONUS areas, a census block group is considered "hard rock" if "at least fifty percent of the area is identified as hard rock" rather than only if the most commonly occurring terrain type is hard rock).

compared the individual price cap companies' different abilities to gain access to capital. Had the Bureau undertaken such an analysis, it would not have concluded that the same 8.5 percent cost of money would be appropriate for AT&T and Verizon on one end of the spectrum, and also for ACS on the other.[60] Nevertheless, ACS supports adoption of the increased cost of money used in CAM v4.0 because it is closer to a realistic figure than the 8 percent previously employed in the model.

Comparison of CAM v4.0 Costs And Price Cap Carrier Embedded Costs. The Bureau states that, in evaluating certain changes to the model proposed by price cap incumbent local exchange carriers ("ILECs") serving non-contiguous ("non-CONUS") areas, it compared historic regulated loop cost data reported by NECA for each non-CONUS service area to the costs calculated in CAM v4.0. The Bureau states that the purpose of this comparison was part of its analysis of "the impact of the requested changes" as well as "the reasonableness of the modeled costs."[61] The Bureau does not make available the details of this analysis, nor offer any explanation why historic regulated loop costs should have any bearing on either the impact of changes requested by non-CONUS carriers on the model and its results, or the reasonableness of those

[60] *See Connect America Fund, High-Cost Universal Service Support*, Comments of ACS, WC Docket Nos. 10-90 & 05-337, at 7-9 (filed March 14, 2013).
[61] *Version 4.0 Notice* at 5.

results.[62] In fact, the Commission consistently has asserted that historic costs are irrelevant to the development of a forward-looking cost model. ACS therefore urges the Bureau to explain or abandon this exercise.

In the *USF/ICC Transformation Order*, the Commission initiated the current public process "to develop a robust cost model for the Connect America Fund to accurately estimate the cost of a *modern voice and broadband capable network*."[63] The Commission delegated to the Bureau the authority to complete *that* model[64] – one based not on outmoded network design or inputs but on the "costs associated with modern voice and broadband networks."[65] The Commission determined that the model should be capable of estimating the forward-looking cost of deploying broadband-capable networks in high-cost areas and identifying at a granular level the areas where support should be

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[62] For example, the Bureau does not explain whether its analysis was limited to the actual NECA data, or whether it converted the figures it examined to their equivalent amounts in 2013 dollars; the Bureau does not indicate whether any attempt was made to estimate the cost of adding modern electronics to the outside plant; and there is no indication that the Bureau has considered how the NECA data should be adjusted to include broadband-related costs beyond loop costs (such as optical line terminals) in the total.
[63] *USF/ICC Transformation Order* ¶184 (emphasis added).
[64] *Id. See also id.* ¶192 ("we delegate to the Wireline Competition Bureau the authority to select the specific engineering cost model and associated inputs, *consistent with this Order*") (emphasis added).
[65] *Id.* ¶186 (rejecting the use of the Commission's existing cost model because it calculated costs "based on engineering assumptions and equipment appropriate to the 1990s").

made available.[66] Nowhere in the discussion of CAF Phase II support is there any suggestion that the Bureau should compare an ILEC's forward-looking costs to its historic costs. To the contrary, the Commission *rejects* backward-looking cost models.[67] Nowhere is the Bureau authorized to consider whether an ILEC would receive an increase in support compared to its historic support levels. The CAF Phase II cost model clearly was intended by the Commission to provide a measure of the forward-looking costs of "constructing modern multi-purpose networks."[68]

Other Commission precedent also supports ACS's position. In developing the prior forward-looking cost model for non-rural high-cost universal service support, the Commission was not persuaded by arguments that historic costs should be deemed relevant to forward-looking results. The Commission found that historic book costs are likely to be *below* model-estimated forward-looking costs in price cap service territories. Indeed, the Commission expressly acknowledged that price cap carriers' high-cost service areas tend to have book costs "below the model's estimate of the cost of a forward-looking network" because these networks "have not been upgraded or experienced much growth in some time and therefore are substantially depreciated on

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[66] *Id.* ¶166.
[67] *See supra,* note 65.
[68] *USF/ICC Transformation Order* ¶156.

carriers' books."[69] This is the case in ACS's service areas, where plant is substantially depreciated and many systems have become outmoded.[70]

Moreover, independent sources confirm that carrier costs have significantly increased in the last decade, not only for the materials that make up the network but also for labor, the largest cost component of constructing telecom outside plant. The Bureau of Labor Statistics maintains the Employment Cost Index (ECI), a quarterly measure of changes in labor costs over time.[71] The ECI tracks changes in wages, salaries and benefit costs, as well as changes in total compensation.[72] For the private utilities industry, the ECI shows an increase of 44% in labor costs since 2003. Similarly, the ECI total compensation for installation, repair and maintenance has increased by 37% since 2002. Increased labor costs contribute to increased capex and opex in forward-looking network development.

The historic loop cost data reported by NECA are not relevant to this proceeding. Those costs reflect a network built over the previous quarter-century, optimized for voice service meeting performance criteria established by the states, and

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[69] *Universal Service (Input Values For High-Cost Support),* Tenth Report & Order, 14 FCC Rcd 20156, ¶27 (1999), *affirmed sub nom. Qwest Corp. v. FCC*, 258 F3d 1191 (10th Cir. 2001).
[70] ACS July 30 Letter at 21.
[71] http://www.bls.gov/ncs/summary.htm#ect
[72] *Id.*

substantially depreciated on carriers' books. Costs associated with this copper-based network involve far fewer electronics, and substantially lower labor costs, than modern, multi-purpose networks. Because of their greater reliance on electronics, modern, IP-based networks inherently require more frequent replacement and upgrading of equipment than the standalone voice network, adding to the cost of both materials and labor.[73]

Given the far more extensive use of electronics in the outside plant in modern networks, with economic lives that are less than half as long as the useful life of fiber optic cable or copper, and the simultaneous increase of labor costs over the past decade, the Bureau will find nothing of relevance in historic loop costs of largely depreciated network assets employing an outmoded technology. The Bureau should be consistent in its development of forward-looking costs, and focus on modern network requirements, as directed by the Commission.

CAF Transition & Timing of Phase II Build-Out. In the *CAF Transition Notice*, the Bureau seeks comment on the appropriate timing of support disbursements for carriers accepting CAF Phase II support and making the associated build-out

[73] Indeed the Commission itself has found that digital switching equipment has a shorter useful life than analog switching equipment, and adjusted the ILECs' prescribed depreciation schedules accordingly. *Depreciation Requirements For Incumbent Local Exchange Carriers (1998 Biennial Regulatory Review),* CC Docket No. 98-137, Report & Order, 15 FCC Rcd 242, ¶14 (1999).

commitments. The Commission indicated that, where CAF Phase II funding available to a price cap carrier exceeds the amount of frozen legacy support available to that carrier, in the first year of implementation, the carrier will receive 50 percent of the CAF Phase II support amount and 50 percent of the frozen CAF Phase I amount. In each of the subsequent four years, the carrier will receive 100 percent of the CAF Phase II amount and no frozen legacy support.[74] At the end of these five years, the carrier will not have received five years' worth of the full amount of CAF Phase II funding but only four and one-half years' worth. The Bureau therefore proposes that the remaining CAF II funding be provided to the carrier in even installments in years three, four and five of the CAF II funding period.[75]

With three Alaska-specific modifications discussed below, ACS supports this proposal because it can help ensure predictable levels of support as well as provide slightly increased support in the later years, as carriers are addressing their most challenging build-out projects (assuming carriers will likely try to complete their least costly build-out projects in the earlier years). ACS respectfully requests that these conditions be considered together, rather than independently, as they are inter-related.

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[74] *USF/ICC Transformation Order* ¶180.
[75] *CAF Transition Notice* at 1-2.

First, ACS proposes that, given the unique construction constraints in Alaska, the half-year of remaining CAF II funding for ACS not be spread over years three, four, and five, but rather be made available at the start of year six. Second, ACS requests that it be permitted to complete the required network build-out within six months following the receipt of its final CAF Phase II support payment under the schedule outlined above, and bring services on-line within another six months (in all, a 12-month extension to meet the service deployment requirements). Third, ACS requests that it be authorized in year six to receive an incremental amount of support reflecting the portion of total CAF II funding allocable to ACS's supported operating expenses for one year.[76]

In this proceeding, ACS first proposed a ten-year build-out period for Alaska in July 2013. ACS explained that because the construction season is unusually short in Alaska, and available contractors are limited, ACS cannot be certain that it will be able to complete the mandatory CAF II build-out in five years.[77] The Bureau indicated on August 29, 2013 that it was still evaluating this and other ACS proposals.[78]

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[76] *See* ACS July 9 Letter at 17.
[77] ACS July 9 Letter at 16.
[78] *Wireline Competition Bureau Announces Availability of Version 3.2 of the Connect America Fund Phase II Cost Model, and Illustrative Results; Seeks Comment on Several Modifications for Non-Contiguous Areas*, WC Docket No. 10-90, Public Notice, DA 13-1846, at 8 (Wireline Competition Bur. rel. Aug. 29, 2013).

Since ACS first raised the issue, the company has devoted additional resources to entering into arrangements with contractors capable of constructing high-speed broadband networks in Alaska. ACS now believes that it will be able to complete the required network facilities build-out within six months from the date of the final CAF Phase II support payment (*i.e.,* six months after the end of year five), and bring the required broadband services on-line within another six months, for ultimate compliance with all service deployment obligations within twelve months of the last CAF II payment. Of course, ACS would continue to file annual status reports as required under the Commission's rules, allowing the Bureau to ensure that deployment in Alaska remains on schedule.[79]

ACS believes this limited extension is necessary and appropriate for ACS to use the support payments to retain contractors, complete the construction required under the CAF II broadband deployment obligations, and bring all services on line – especially considering that the final payment may occur at the beginning of the long Alaska winter during which construction typically cannot be undertaken. ACS also notes that under the Bureau proposal discussed above, carriers will be required to complete the required build-out in the very same period when the final support installments are being distributed. Given that carriers accepting CAF Phase II support will not receive its full

[79] 47 C.F.R. §54.313(c).

benefit until the end of the five-year payment cycle, ACS believes that the proposed one-year extension for service deployment in Alaska is reasonable and will do no harm to the public interest.

Conclusion. ACS appreciates the opportunity to review CAM v4.0. ACS urges the Bureau to fully explain the inputs and workings of CAM v4.0 before finalizing the model, to provide the transparency and verifiability that the Commission promised in the *USF/ICC Transformation Order*. ACS also urges the Bureau to incorporate Alaska-specific inputs as discussed herein, so that the final CAM will more accurately capture state-specific conditions for broadband deployment. ACS would be happy to respond to any questions the Bureau may have.

Respectfully submitted,

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January 7, 2014

REDACTED FOR PUBLIC INSPECTION

ACS Confidential Attachment A-1

Containing the following Confidential files provided pursuant to the Third Supplemental Protective Order in WC Docket No. 10-90:

a) Summary of Changes V21 Capex ACS Inputs File - Equipment

b) V21 Capex ACS Inputs File - Equipment

c) State-Specific V1 Capex File - Equipment

d) Summary of Changes V21 Capex ACS Inputs File - Equipment + Labor

e) V21 Capex ACS Inputs File - Equipment + Labor

f) State-Specific V1 Capex File - Equipment + Labor

g) Regional Cost Adjustment

[CONTENTS REDACTED IN ENTIRETY]

REDACTED FOR PUBLIC INSPECTION

ACS Highly Confidential Attachment A-2

Containing the following Highly Confidential files provided pursuant to the Second Protective Order in WC Docket Nos. 10-90 and 05-337:

a) ACS Materials In Inventory

b) ACS Contracts for Materials In Inventory

c) Outside Plant Installation Contract, ACS Central District

d) Outside Plant Installation Contract, ACS Interior District

e) Outside Plant Installation Invoice, ACS Interior District

[CONTENTS REDACTED IN ENTIRETY]

REDACTED FOR PUBLIC INSPECTION

Attachment B

Declaration of Kevin Kuper

Attachment B

Declaration of Kevin Kuper

1. I am the Director, Supply Chain Management, for ACS. I have approximately 10 years of experience with ACS in the purchasing of materials used in network deployment and in the management of inventory, and before that I performed similar functions for 8 years with Udelhoven Oilfield System Services, Inc.

2. I have reviewed the list of inventory items presented in Confidential Attachment A to these "Comments of Alaska Communications Systems" and I am familiar with the quantities and the costs of the 18 listed items in ACS's inventory. The files presented in Confidential Attachment A accurately represent the current quantities in ACS's inventory and the costs of each of these 18 items.

3. The information provided in this filing is based on records from SAP Inventory Management System employed by ACS, part of the SAP Enterprise Management System used by ACS company-wide, for all materials purchased for use in the network. The Inventory Management System integrates in real time with the other modules within the Enterprise Management System, such as the General Ledger, Purchasing, Invoicing and Project Systems. Items purchased for use in ACS's network are reflected in the SAP Purchasing system, and appear in the Inventory Management System while they are kept in inventory (that is, before they are deployed). When an item is received from the vendor and matched to the purchase order, the goods are marked as "received" in the Inventory Management System. The item's value as shown in the Inventory

Management System at any given time is based on a moving average of the prices of all such items currently in the inventory. The SAP system automatically recalculates the moving average value of each item when goods are received in inventory or when goods leave the inventory to be deployed. The value of the items issued out of inventory for a capital project is based on the moving average price of the item at the time of issue.

4. The foregoing is true and complete as of the date hereof to the best of my information, knowledge and belief.

Kevin Kuper
January 6, 2014

REDACTED FOR PUBLIC INSPECTION

ACS Comments, January 7, 2014
WC Docket Nos. 10-90, DA 13-2304 & DA 13-2317

Attachment C

Declaration of Dale Patrick

Attachment C

Declaration of Dale Patrick

1. I am the Senior Manager, Outside Plant Engineering, for ACS. I have approximately nine years of experience with ACS in the specifying, purchasing and scoping the materials and contract labor used in network deployment, and before that I performed similar functions for 33 years with CenturyLink, Continental Telephone, and PTI Communications.

2. I have reviewed the 21 labor input changes presented in Confidential Attachment A to these "Comments of Alaska Communications Systems" representing ACS-specific network installation costs, and I am familiar with the contracts between ACS and its outside plant contractors for the Central District. The files presented in Confidential Attachment A accurately represent the current cost to ACS of each of these 21 labor installation tasks.

3. The information provided in this filing is based on the currently effective Central District Outside Plant Contract provided as part of Confidential Attachment A – Outside Plant Labor Contract – Central District. The prices contained with the contract represent the results of a competitive bidding process based on ACS's standard, competitively bid contract procedures, and represent the lowest bid

received in each ACS operating district. ACS operates 4 districts in Alaska and the Central District, which contains the Anchorage Study Area, generally has the lowest contract labor rates.

4. The foregoing is true and complete as of the date hereof to the best of my information, knowledge and belief.

Dale Patrick
January 6, 2014