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

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337

COMMENTS OF ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

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Executive Summary

Alaska Communications Systems Group, Inc. ("ACS") commends the Bureau's efforts to distribute the limited Connect America Fund ("CAF") Phase II support according to the Commission's directive to increase investment in broadband in areas where it may not be economically viable. As ACS discusses more fully in its comments, not all price cap local exchange carriers ("LECs") are similarly situated and the Commission has recognized the unique difficulties faced by the insular price cap LECs in serving their customers. Accordingly, ACS objects to the use of a one-size-fits-all model in order to distribute CAF Phase II support to the insular price cap LECS in general, and to ACS in particular. Without a tailored approach that recognizes the unique service difficulties and related costs faced by the insular price cap LECs, ACS will not be able to expand broadband availability and sustain broadband and voice services under the constraints of a model that would reduce its current support. ACS urges the Bureau to consider two options for more fairly apportioning CAF Phase II support to the insular price cap LECs: 1) the Bureau must develop a separate model for insular price cap LECs in order to address the factors that make the insular price cap LECs' service areas particularly high-cost and difficult to serve, and apportion funding specifically to address the unique circumstances of these carriers, or 2) the Bureau should continue to provide the insular price cap LECs with their current frozen and incremental CAF Phase I support in lieu of support based on a model, but also with reduced commitments for remaining on a static support amount. A one-size-fits-all model does not meet the Commission's mandate to consider the unique circumstances of the insular price cap LECs, nor will such a model account for the costs faced by these carriers.

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I. INTRODUCTION AND SUMMARY

Alaska Communications Systems Group, Inc., on behalf of its operating subsidiaries ("ACS"),[1] submits these comments in response to the request of the Wireline Competition Bureau (the "Bureau") in the above-captioned dockets for comments on model design and data inputs for Phase II of the Connect America Fund ("CAF").[2]

ACS respectfully submits that the Bureau's proposal is a commendable but ultimately unsuccessful attempt to address a constrained optimization problem put before it by the Commission – namely, to induce increased investment in broadband in areas where it may not be economically viable, under the constraint of funding budgeted through CAF that is insufficient to support the level of investment required to achieve the lofty broadband availability goals

[1] In this proceeding, Alaska Communications Systems Group, Inc. represents four local exchange carrier subsidiaries, ACS of Alaska, Inc., ACS of Anchorage, Inc., ACS of Fairbanks, Inc., and ACS of the Northland, Inc. (collectively, the "ACS ILECs"), as well as ACS Wireless, Inc., ACS Long Distance, Inc., ACS Internet, Inc., and ACS Cable, Inc. Together, these companies provide wireline and wireless telecommunications, information, broadband, and other network services to residential, small business and enterprise customers in the State of Alaska and beyond, on a retail and wholesale basis, using ACS's statewide and interstate facilities.

[2] *Wireline Competition Bureau Seeks Comment on Model Design and Data Inputs for Phase II of the Connect America Fund*, Public Notice, WC Dockets 10-90 and 05-337, DA 12-911 (Wireline Competition Bur. rel. June 8, 2012) (the "*Model Design/Data Inputs Public Notice*").

established by the Commission. By proposing a model for all price cap local exchange carriers ("LECs") as if they are similarly situated, despite the Commission's acknowledgement that they are not, the Bureau compounds this problem. A single model cannot account for the unique costs of the some of the most difficult areas to serve in this country in a fair and useful way. ACS and the other insular price cap LECs simply cannot "make broadband available to as many unserved locations as possible, as well as sustain voice and broadband in high-cost areas that would not be served absent support"[3] with CAF Phase II funds if such funds are distributed based on the proposed one-size-fits-all model. By pretending otherwise, the proposed model would provide insufficient funding to deliver broadband to all areas of Alaska, condemning its residents to life without this increasingly essential link to economic, cultural, educational, and health care opportunities enjoyed throughout the contiguous states.

The Bureau acknowledges that the Commission directed it to "consider the unique circumstances of [Alaska, Hawaii, Puerto Rico, the U.S. Virginia Islands and Northern Mariana Islands] when adopting a cost model" and to "consider whether the model ultimately adopted adequately accounts for the costs faced by carriers serving these areas."[4] In February 2012, ACS submitted an Alaska-specific add-on to the model proposed by the Commission that addresses some of the essential cost elements associated with providing broadband service in Alaska that were ignored by the model proposed by the Commission.[5] In addition, ACS believes that the

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[3] *Model Design/Data Inputs Public Notice* at 1.

[4] *Model Design/Data Inputs Public Notice* at 2, *citing Connect American Fund*, WC Docket No. 10-90, *et al.*, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17737-38, ¶ 193 (2011) (*USF/ICC Transformation Order*).

[5] The ACS model estimated "the cost to provide broadband in Alaska that a national broadband cost model will not. Because of the limited road system in the state, 2nd mile transport from the serving wiring center at a village off the road system must be provided via satellite or microwave transport. [footnote omitted] Equally unique to an insular area such as Alaska, the lack of an Internet peering location in the state requires that middle mile transport be provided via undersea cable from Alaska to peering locations in Seattle, Washington and Portland, Oregon. The need for transport via satellite, microwave and undersea cable systems introduce costs that will not be present in a national model that assumes backhaul via fiber to a point on a regional ring within the same LATA."

inputs for the model elements that were addressed in the model proposed by the Commission are in need of adjustment to reflect the real costs of building and maintaining networks in Alaska in order to provide broadband service in Alaska. As demonstrated in the Alaska-specific add-on model prepared by ACS, the CAF distribution methodology adopted by the Bureau must produce additional support to solve the middle mile problem and enable broadband distribution to the unserved areas of Alaska that ACS has not been able to reach at current funding levels. Further, ACS will not be able to expand broadband availability and sustain broadband and voice services under the constraints of a model that would reduce its current level of support, which is what happens with the model under consideration by the Bureau.

In response to the *Model Design/Data Inputs Public Notice,* ACS offers additional proposals that it believes will address the needs of the insular price cap LECs. It is imperative that the Bureau approach CAF Phase II funding for the insular price cap LECs by identifying the factors that make their service areas particularly high-cost and difficult to serve, and reflecting in their CAF support calculations the unique circumstances of these carriers. ACS recognizes the time-consuming nature of developing a separate model for the insular price cap LECs. ACS therefore suggests as an alternative that the Bureau continue to provide these carriers with their current frozen and incremental CAF Phase I support in lieu of support based on a model.

II. DISCUSSION

A. Continuing To Provide Insular Price Cap LECs With Frozen CAF Support in Lieu of Support Based on a One-Size-Fits-All CAF II Model Is a Reasonable and Cost Effective Means of Providing CAF Support in Phase II.

ACS Data Submission, *Request for Connect America Fund Cost Models*, FCC Public Notice in WC Docket Nos. 10-90 and 05-337, DA 11-2026 (Wireline Competition Bur., rel. Dec. 5, 2011) at 1 (filed Feb. 13, 2012). ACS also noted in footnote 1 (omitted from quotation above) that "[i]n the case of some villages served by ACS, such as Akutan in the Aleutian Island chain and Kaltag in the west-central portion of the state, microwave 2nd mile transport is not feasible due to extreme distances. The only option for service would then be satellite transport." *Id.* at footnote 1.

As a starting point, ACS urges the Bureau to continue providing insular price cap LECs with CAF support at Phase I levels, including both frozen and incremental Phase I support. Currently ACS receives approximately $19 million in frozen CAF Phase I support.[6] That amount is barely more than one percent of the total $1.8 billion budgeted for CAF Phase II support.[7] However, the current version of the CQBAT model, assuming a supported per line range from $80 to $256, calculates support for ACS at $6.7 million annually.[8] These numbers indicate that the current version of the ABC Coalition model results in a reduction of support in excess of 65 percent of the current levels, which were derived for the purposes of supporting voice. The *USF/ICC Transformation Order* acknowledges the potential disruption to voice and other currently supported obligations that the transition to broadband-based support may cause.[9] Reducing current support levels by 65 percent because of the use of a nationwide model that cannot account for the unique circumstances found in Alaska would cause significant harm to consumers in Alaska.

Given the Commission's intent to distribute CAF support where most needed, it is clear that reducing support while increasing obligations faced by ACS will not achieve the Commission's broadband penetration goals in Alaska. Continuing to provide support at the currently frozen levels, while not necessarily a perfect solution for Alaska's price cap territories, is at least a cost effective means of providing CAF support in Phase II while not jeopardizing the

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[6] The frozen high-cost support ACS receives is made pursuant to the rules adopted by the Commission in the *USF/ICC Transformation Order*, specifically 47 C.F.R. § 54.301(a)(1). *See also* USAC website at http://www.usac.org/about/tools/fcc/filings/2012/q2.aspx.

[7] If ACS elects to accept any of the roughly $4.2 million incremental CAF Phase I support the Bureau has allotted for ACS, (*See* Public Notice, Wireline Competition Bureau Announces Support Amounts For Connect America Fund Phase One Incremental Support, DA 12-639, ¶ 9 (rel. April 25, 2012)), the most ACS could receive would still be less than 1.5 percent of the total Phase I CAF budget. ACS believes that with the obvious difficulties and significant costs of serving the state of Alaska that it should be entitled to more than 1.5 percent of the total CAF Phase II budget.

[8] *See* Letter from Jonathan Banks, USTelecom, to Marlene H. Dortch, Federal Communications Commission, filed Feb.13, 2012 (attaching updated documentation of CQBAT model).

[9] *USF/ICC Transformation Order,* 26 FCC Rcd at 17727, ¶ 165.

broadband penetration progress made to date. Alternatively, if the Bureau continues providing support to ACS in Phase II using CAF I support amounts, the Bureau should concomitantly adjust the associated service requirements, recognizing that when the amount of that support was established, the support was intended only to help defray the costs of providing voice services at affordable rates, and should not be expected also to cover the costs required to build, maintain, and operate broadband-capable networks.

B. The CAF II Model Must Be Transparent and Accessible.

In its previous submission of an Alaska-specific model, ACS noted its concern that it did not believe that any Alaska-specific costs were included in the CQBAT model.[10] As discussed more fully herein, this lack of Alaska-specific information is a problem in and of itself, but it also highlights an equally important concern for any model or models that will be used by the Bureau in setting CAF Phase II funding. Specifically, the concern is that any model must be transparent and accessible.[11] ACS continues to stress that "[a]ny model the Commission adopts, along with the input values used to determine support amounts in particular areas, must be available for review by the public. The 'model and all underlying data, formulae, computations, and software associated with the model must be available to all interested parties for review and comment. All underlying data should be verifiable, engineering assumptions reasonable, and outputs plausible.' [footnote omitted] Moreover, the public must have access to the underlying source code as well as the input data, in order to be able to test the model and offer modifications

[10] *See* ACS Model Comments at 4.

[11] ACS noted in the ACS Model Comments that it "has had only limited access to the CQBAT model proposed by the ABC Coalition – thus far, none of the underlying cost inputs have been made available …." ACS Model Comments at 4.

to it, for example, by changing input values, running sensitivity tests, and comparing the results of various runs of the model."[12]

C. The Bureau Should Develop a Separate Model Intended For Insular Price Cap LECs, Building on the Model Add-On Previously Submitted By ACS With These Further Comments.

The Commission has recognized there are unique challenges in serving Alaska. ACS has previously highlighted the challenges of deploying, maintaining, and operating voice and broadband networks in Alaska. These challenges set ACS apart from other price cap LECs so significantly that it is impossible for a one-size-fits-all model that may be applicable for price cap LECs operating in the Lower 48 States to address the support needs for ACS to serve a state with challenges like no others. Alaska is a state that has an extraordinarily large land mass, a disperse population, extremely harsh weather and soil conditions, a uniquely short construction season, constraints on the local labor force, the absence of a road system for hundreds of villages and towns, and limited access to the power grid.[13] The challenges faced by ACS in Alaska are unique even among the other insular price cap LECs, which are in turn set apart from other price cap LECs in the Lower 48 States.

The problems of developing accurate estimates of broadband costs using a one-size-fits-all model exist whether the model is used to estimate absolute costs of a specific carrier or used to develop estimates of the cost of one carrier relative to other carriers. In the former case, accurate broadband costs of an insular carrier that is not similarly situated to carriers in the contiguous Lower 48 States cannot be developed by a model designed to estimate the costs of carriers in the Lower 48 States. Similarly, an accurate picture of relative costs between insular

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[12] ACS Ex Parte Letter, *Developing a Unified Intercarrier Compensation Regime, et al.*, CC Docket Nos. 01-92 and 96-45, WC Docket Nos. 03-109, 05-337, 07-135 and 10-90, WT Docket No. 10-208, and GN Docket No. 09-51 at 1-2 (filed May 11, 2012) (*quoting USF/ICC Transformation Order* at ¶ 185).

[13] *See* Comments of Alaska Communications Systems Group, Inc., *Connect America Fund, High-Cost Universal Service Support*, WC Docket Nos. 10-90 and 05-337 at 3 (filed Feb. 1, 2012) ("ACS Model Comments").

and non-insular carriers cannot result from the use of the one-size-fits-all model since the estimation error systematically present across mainland carriers is in no way similar to the error in the estimates for insular carriers. These results are at the heart of the Commission's concerns about a nationwide models' ability to estimate broadband costs for insular carriers.[14] ACS urges the Commission to develop a separate model to provide CAF Phase II funding to insular price cap LECs, which ACS believes is the only way to fully recognize the unique service cost factors for high-cost, difficult to serve insular areas, specifically Alaska. The Lower 48 States simply do not have costs that are driven by factors such as lack of road access, lack of municipal power, lack of terrestrial transport, extreme climate conditions, thousand-mile separations between points of network presence, and non-contiguous Internet access points.

In addition to the many recommendations that ACS has already submitted for consideration in developing a model that addresses Alaska-specific costs,[15] ACS responds here with further recommendations in response to a number of items raised by the Bureau in the *Model Design/Data Inputs Public Notice*.

Technology

The Bureau asks what technology it should use in order to model costs, but only presents three technology options: fiber-to-the-premises ("FTTP"), fiber-to-the-node ("FTTN"), and

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[14] *See USF/ICC Transformation Order* at ¶ 193.

[15] *See* ACS Ex Parte Letter, *Developing a Unified Intercarrier Compensation Regime, et al.*, WC Docket No. 10-90 *et al.* (filed May 11, 2012); ACS Ex Parte Letter, *Developing a Unified Intercarrier Compensation Regime, et al.*, WC Docket No. 10-90 *et al.* (filed April 27, 2012); ACS Data Submission, *Wireline Competition Bureau Seeks Comment on Potential Data for Connect America Fund Phase One Incremental Support*, FCC Public Notice in WC Docket Nos. 10-90 and 05-337, DA 12-137 (rel. Feb. 6, 2012) (filed March 30, 2012); ACS Data Submission, *Wireline Competition Bureau Seeks Comment on Potential Data for Connect America Fund Phase One Incremental Support*, FCC Public Notice in WC Docket Nos. 10-90 and 05-337, DA 12-137 (rel. Feb. 6, 2012) (filed March 9, 2012); ACS Data Submission, *Wireline Competition Bureau Seeks Comment on Potential Data for Connect America Fund Phase One Incremental Support*, FCC Public Notice in WC Docket Nos. 10-90 and 05-337, DA 12-137 (rel. Feb. 6, 2012) (filed February 29, 2012); ACS Data Submission, *Request for Connect America Fund Cost Models*, FCC Public Notice in WC Docket Nos. 10-90 and 05-337, DA 11-2026 (rel. Dec. 15, 2011) (filed February 13, 2012); ACS Comments, *Connect American Fund, High-Cost Universal Service Support*, WC Docket Nos. 10-90 and 05-337 (filed February 1, 2012).

digital subscriber line ("DSL").[16] This assumption by the Bureau underscores the issue that a one-size-fits-all model simply is not reasonable: at a minimum, it fails to capture the unique network architectures that are necessary for broadband delivery in Alaska.

The three proposed technology options fail to capture several network solutions employed in the State of Alaska. Deploying fiber simply is not cost effective to link a bush exchange and the nearest 911 public safety answering point ("PSAP") or interexchange point-of-presence ("POP") a thousand miles away, for example. Similarly, broadband transmissions between ACS exchanges and the nearest Internet access point (in Seattle or Portland) necessitates an undersea cable transmission. The weather, soil, terrain, and vast expanses of land and water in Alaska dictate that carriers serving customers integrate a variety of technologies, many of which are not contemplated by the Bureau. As ACS has noted many times, satellite, microwave, and undersea cables are critical to connect what would be considered an extremely remote lifestyle in the Lower 48 States but a normal lifestyle for people living in Alaska connecting to each other, the rest of the country, and the world.[17] The Commission's model ignores the costs of extremely long haul middle mile transport in Alaska, especially by satellite and undersea cable, which are necessary to support delivery of the broadband speeds mandated by the Commission.

The choice of technology in any model must depend on the circumstances of the service territory. The Bureau should not assume FTTP, FTTN, or DSL as the modeling technology when determining the amount of CAF II Phase support that should be apportioned to ACS as the price cap LEC in Alaska. Rather, the Bureau should model technologies that meet the long-term needs of the service territory and that have the lowest long-run cost. ACS has previously

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16 *Model Design/Data Inputs Public Notice* at 7-10.

17 Other insular price cap LECs face the same types of technology challenges.

proposed some of the necessary technology inputs to provide broadband service to Alaska, and while fiber is one technology component, it alone is by no means sufficient for meeting the Commission's broadband goals in Alaska.[18] Neither FTTP, nor FTTN, nor DSL can achieve the Commission's transmission speed targets without adequate transport capacity to back it up. Yet, the costs of providing such transport are not adequately captured in the model, and cannot be presumed available at relatively modest cost within the study area, as might be the case even in relatively remote areas of the contiguous Lower 48 States.

Network Design

The Bureau asks whether the model should be based on a green-field or brown-field network design.[19] For ACS there is no question that the network design should be based on a green-field approach. While a brown-field approach may lower the amount of funding needed, that approach also opens up a host of other modeling problems. For example, the brown-field approach makes comparisons between carriers nearly impossible and it will underestimate the support needed when the starting point for many carriers has been based on previous support. Specifically, as the Bureau recognizes, there are variations in age, quality, and size of existing plant; it is unclear if data exists for existing copper deployments; modeling existing networks and assets may rely on sweeping generalizations of average conditions; increasing broadband speeds on existing plant will likely require additional investment and additional support; and sunk costs of existing plant are ignored.[20]

A brown-field approach could also introduce competitive disparities not present in a green-field approach. Specifically, a brown-field approach could produce anomalies in support levels , if those support levels are driven, not by the relative costs of delivering broadband in a

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18 *See* ACS Model Comments at 10-11.
19 *Model Design/Data Inputs Public Notice* at 5-6.
20 *Model Design/Data Inputs Public Notice* at 12.

particular area relative to others, but by the existing baseline capabilities of the incumbent's network. However, under a green-field approach, support levels could be derived based on the total service in an area, after assuming a threshold level of provider investment. ACS urges the Bureau to find that the best approach is to develop a model based on a green-field approach.

Modeling Costs

The Bureau asks whether the model should estimate the total costs of serving the entire service area and allocate the costs to supported areas, specifically the census blocks or smaller areas, or whether it should only estimate the standalone costs of areas eligible for support.[21] ACS believes that costs must be modeled on entire service areas in order to properly distribute shared costs. Even if a carrier is only reporting a portion of the service area costs, specifically the costs for the portion that is the supported area, *i.e.*, the census block, there must still be a reasonable way to determine what portion of the carrier's shared network costs should be supported, and the starting point should be company total costs.

Terminal Value of Network

In conjunction with the Bureau's consideration of the network design to be used in modeling costs for CAF Phase II support, the Bureau asks about the proper terminal value to assign to the modeled network at the end of the five-year support period for CAF Phase II, and whether that terminal value should be book value, commercial/economic value, or zero value.[22] ACS agrees with the Bureau that setting the proper terminal value is a difficult issue in light of the fact that the Commission has designed CAF Phase II to provide support for only five years. ACS believes it would not be possible to accurately forecast commercial or economic value for each study area. If terminal value were to be set according to book value then carriers likely

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[21] *Model Design/Data Inputs Public Notice* at 13-16.
[22] *Model Design/Data Inputs Public Notice* at 9-13.

would have significant stranded investment costs. The only reasonable answer therefore is to set terminal value at zero.

While setting terminal value at zero may significantly increase funding requirements, it is also the only way that carriers will be able to recover their costs under a program where support will not be assured beyond the five-year mark. Moreover, the Bureau must give appropriate consideration to what happens to carriers that lose support after the five-year mark. Even if terminal cost is set at zero and the cost of the network is fully paid for with the CAF Phase II support, there are still costs associated with operating and maintaining these networks after the five-year CAF II period. If the CAF Phase II recipient cannot continue to provide service in the absence of additional support, will the opportunity to provide service be auctioned off? Will the Commission require any subsequent provider-of-last-resort to purchase the existing facilities, or will the subsequent service provider be expected to deploy all new network infrastructure?

If supported networks will need to be operated and maintained in the future based exclusively on revenue from subscriber charges, "take rate" and end user prices will be critical factors in sustaining the broadband networks built in part using CAF Phase II funding. If broadband services are not affordable, or desired then carriers do not have sufficient subscriber revenue to sustain the network, both voice and broadband services will be at risk at the end of the five-year funding period. The Commission has assumed a 90% "take rate,"[23] but in Alaska the "take rate" for broadband services has been below the 50% mark.[24] Setting a terminal value at anything other than zero will put carriers at further risk of not being able to operate and maintain their networks given the risks associated with low subscribership.

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[23] *See* Coalition Implementation of CostQuest Associates Broadband Analysis Tool (CQBAT), Attachment 3 Model Description, at 18 (July 29, 2011).

[24] ACS uses industry information from multiple sources to gather statewide take rates.

Cost Benchmarks

The Bureau seeks comment on what the benchmarks should be for identifying areas with costs that are either too low or too high to receive CAF Phase II support.[25] In order to ensure that broadband becomes accessible to the maximum number of unserved locations within the five years allotted for CAF Phase II, the Bureau asks how it can maximize the use of $1.8 billion in support. ACS objects to the reasoning underlying this line of inquiry. The Commission set the $1.8 billion budget for CAF Phase II believing that it can be divided in some logical fashion among all price cap carriers to provide a reasonable amount of support to all or most unserved portions of the country. The size of the fund for CAF Phase II is simply insufficient to meet that goal. As a result of benchmarking, a great many high-cost areas, including many parts of Alaska, will be ineligible for support except under the Remote Areas Fund ("RAF"), which has a budget of merely $100 million. Even then, ACS believes that the areas eligible for support under CAF II will be insufficiently supported for broadband purposes.[26]

Based on the modeling that has been done so far, ACS does not believe that the proposed approach will result in a reasonable amount of support for Alaska. Allotting $6 million to $7 million per year for five years will not be adequate for ACS to satisfy the broadband mandate and deliver affordable, reasonably comparable voice and broadband coverage through most of the state. Even assuming that the "bush" communities continue to depend on satellite coverage, ACS estimates that it would require in the range of $75 to $100 million in order to reach the 6 Mbps downstream/1.5 Mbps upstream goals set by the Commission. The math is unambiguous:

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[25] *Model Design/Data Inputs Public Notice* at 21-23.

[26] Under the benchmarking proposed by the Bureau a significant portion of the high-cost areas in Alaska will not be covered by CAF Phase II funding, which will necessarily require funding from the RAF in order to serve these displaced Alaska customers, further stressing the demands on a fund that has yet to be defined and which is likely already underfunded for its true purpose.

(1) $6 million to $7 million per year for five years is insufficient; and (2) no investor (equity or debt) will fund these projects under these terms.

Without changing the size of the CAF Phase II fund, ACS believe that the only way to meet the Commission's mandate for expanding broadband to all CAF locations is to set aside funding for insular price cap LECs and disburse that apportioned support based on a model that is tailored to the costs and service difficulties that are unique to those service areas. Unless the Bureau is prepared to set aside a substantial portion of the $1.8 billion for broadband coverage to the state, the areas that lag farthest behind on broadband will not be funded. For carriers to fund the kinds of investments that are being called for, the Bureau not only needs to allocate more money to Alaska, but it also needs to provide a long-term commitment. No lender will loan the money that carriers need unless it knows the commitment is for more than five years. There simply is no business model without adequate CAF Phase II support to bring advanced services to these high-cost areas. Consumers who need these services most won't have access to distance learning, telemedicine, and merchant services that make them part of the world economy.

Shared Network Costs

The Bureau asks what methodology should be used to assign shared costs.[27] ACS agrees with the Bureau's proposal to use the subtractive method, which would model the entire network and then subtract the costs that are only related to already served areas. The Bureau should make clear that subtracted costs do not include any costs that are shared between the already served and the unserved areas.

[27] *Model Design/Data Inputs Public Notice* at 16-20.

Data Inputs

The Bureau seeks comment on a number of data source issues, as well as methods for validating data inputs.[28] ACS encourages the Bureau to seek further comment on data inputs once the model is designed. However, ACS stresses that carrier-specific inputs must be used in the model, or at least be the means of validating the model. As ACS has repeatedly stressed, Alaska is a unique state and the characteristics of service do not fit a model based on homogeneity, such as the homogeneity that is found in the Lower 48 States. For the same reasons that it does not make sense to base CAF Phase II support for an Alaska price cap LEC on a one-size-fits-all Lower 48 State model, it also does not make sense that the inputs to any model that will be applied to ACS would be based on inputs that do not apply to the unique aspects of its service territory. That said, it has been very difficult for ACS to determine what cost inputs the Commission has already used in its proposed model. This further highlights the need for model transparency, the lack of which to date has impeded ACS's efforts to adequately review and comment on data inputs. In light of the Commission's current efforts, ACS believes it is difficult to provide detailed comment on the carrier-specific data inputs that should be used until the framework of the model that will be used to provide CAF Phase II support to ACS is developed. With regard to validation of cost inputs, ACS suggests that in a model geared toward the insular price cap LECs that it would reasonable to review purchase orders, invoices, and receipts of amounts paid.

III. CONCLUSION

For foregoing reasons, ACS urges the Bureau to develop a model that accounts for the unique service characteristics of the insular price cap LECs, or in the alternative to continue providing price cap LECs with their frozen CAF support during the five-year CAF Phase II.

[28] *Model Design/Data Inputs Public Notice* at 23-30.

ACS stresses that a one-size-fits-all Lower 48 State CAF II model does not meet the Commission's mandate to "consider the unique circumstances of [Alaska, Hawaii, Puerto Rico, the U.S. Virginia Islands and Northern Mariana Islands] when adopting a cost model" and to "consider whether the model ultimately adopted adequately accounts for the costs faced by carriers serving these areas."[29]

Respectfully submitted,

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[29] *Model Design/Data Inputs Public Notice* at 2, *citing Connect American Fund*, WC Docket No. 10-90, *et al.*, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17737-38, ¶ 193 (2011) (*USF/ICC Transformation Order*).