

ACS OF ANCHORAGE, INC.
TARIFF FCC NO. 1
TRANSMITTAL NO. 17
November 8, 2002

DESCRIPTION AND JUSTIFICATION

1. INTRODUCTION

ACS OF ANCHORAGE, INC. ("ACS-ANC") proposes to modify its F.C.C. Tariff No. 1 to offer nine additional Transparent LAN Service-Lite ("TLS-Lite") Ethernet data transport speeds, and to reduce the rate for 768 Kbps TLS-Lite service.

2. DESCRIPTION

This filing is being made to offer customers expanded choices of bandwidth and more competitive pricing for existing bandwidth. This will better meet customer's needs for high speed, advanced data communications at a reasonable cost. Below is a summary of the filing, which introduces new TLS-Lite bandwidth of 1 Mbps through 9 Mbps, and revises the existing rate tables for 768 Kbps TLS-Lite.

A. Addition of TLS-Lite 1 Mbps through 9 Mbps Transport Service

TLS-Lite is a 768 Kbps transport service for the interconnection of Ethernet LANs and WANs, provided over copper facilities. TLS-Lite can interconnect with Transparent LAN Service – High Speed ("TLS"), which offers bandwidth of 10 Mbps, 100 Mbps and 1 Gbps, over fiber. ACS-ANC proposes to add TLS-Lite speeds of 1 Mbps through 9 Mbps over copper, to fulfill customer's requirements for bandwidth options between 768 Kbps and 10 Mbps.

B. Reduced rate for 768 Kbps Transparent Lan Service Lite ("TLS-Lite")

The equipment currently used to provision 768 Kbps TLS-Lite has been discontinued by the manufacturer and will be replaced by new equipment. The new equipment can provide 768 Kbps through 9 Mbps service at a lower cost. This affords ACS-ANC the opportunity to lower the rate for 768 Kbps service, to be more competitive and to bring the rate in line with the proposed rates for the new higher transport speeds. For example, the current rate for 768 Kbps is higher than the proposed rate for 1 Mbps transport. Reducing the rate for 768 Kbps allows it to remain a viable option.

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3. COST SUPPORT

This section describes the underlying costs and methodology used to determine the interstate costs of providing additional TLS-Lite transport speeds and reducing the 768 Kbps rate.

A network diagram was developed which identified dedicated and common investment needed to provision 768 Kbps through 9 Mbps TLS-Lite. The actual costs of the investment components were estimated based on vendor quotes for incremental investment and work orders for existing investment utilized by the product.

ACS-ANC then detailed each investment component. Dedicated investment (investment utilized only for TLS-Lite) was 100% allocated to this service. Common investment (investment utilized for multiple services) was allocated based on ACS-ANC's estimate of the total use of the investment by TLS-Lite.

Included in the analysis are the investment for StormPort 1020 EtherLoop Modem per customer premise, DSLAMS required in the serving central wire center, cable and wire plant from the customer premise to the wire center, interoffice transport, and an applicable amount of the Cisco 6509s (common equipment) required in each wire center.

Annual charge factors based on ACS-ANC's 2001 Form M were applied to the investment to calculate the annual cost of depreciation expense, maintenance, billing and customer service, administration costs, overhead, marketing, product management, uncollectibles and cost of debt. The percentage for each expense was then applied to the TLS-Lite investment.

Additional expenses for setup costs, transmission studies, loop qualifications and removal of existing bridge taps were also included in the analysis.

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The non-recurring costs are referenced as "set-up costs and order processing" in the analysis. This is the estimate of the incremental cost incurred by ACS-ANC for each customer that signs up for TLS-Lite. The "set-up" costs were included for every customer ACS-ANC estimates will initiate service.

4. DEMAND AND REVENUE

The initial demand is based on a market assessment and sensitivity studies with customers. Based on these assumptions the demand and revenue summaries are displayed in Exhibit A, for the addition of 1 Mbps through 9 Mbps speeds and rate reduction of 768 Kbps, TLS-Lite.

Additional TLS-Lite Transport Speeds and 768 Kbps TLS-Lite Rate Reduction
Cost Model

A IS. Income Statement

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Revenue						
Recurring Revenue	\$157,446	\$304,323	\$416,516	\$524,055	\$623,915	\$2,026,255
Non-Recurring Revenue	\$23,300	\$12,600	\$11,000	\$10,500	\$10,500	\$67,900
Total Revenue	\$180,746	\$316,923	\$427,516	\$534,555	\$634,415	\$2,094,155
Operating Expenses						
Maintenance Circuit Equipment	\$12,574	\$20,963	\$27,297	\$33,460	\$39,110	\$133,404
Maintenance Underground Fiber	\$1,750	\$3,339	\$4,538	\$5,705	\$6,774	\$22,106
Billing/Customer Service	\$11,588	\$19,742	\$25,899	\$31,889	\$37,381	\$126,499
Other Overhead	\$26,210	\$44,651	\$58,577	\$72,126	\$84,546	\$286,109
Admin	\$13,346	\$22,737	\$29,828	\$36,727	\$43,052	\$145,691
Marketing	\$2,649	\$4,513	\$5,920	\$7,290	\$8,545	\$28,916
Product Management	\$256	\$436	\$572	\$704	\$826	\$2,794
Uncollectibles	\$2,369	\$4,036	\$5,294	\$6,519	\$7,642	\$25,860
Setup Costs and Order Processing	\$27,773	\$15,019	\$13,112	\$12,516	\$12,516	\$80,934
Transmission Studies	\$2,733	\$1,478	\$1,290	\$1,232	\$1,232	\$7,965
Loop Qualification	\$4,761	\$2,575	\$2,248	\$2,146	\$2,146	\$13,874
Remove Bridge Taps	\$1,732	\$936	\$817	\$780	\$780	\$5,046
Total Operating Expenses	\$107,741	\$140,424	\$175,392	\$211,094	\$244,547	\$879,199
EBITDA	\$73,005	\$176,498	\$252,124	\$323,462	\$389,867	\$1,214,956
Depreciation Circuit Equipment	\$41,397	\$69,013	\$89,866	\$110,156	\$128,754	\$439,186
Depreciation Cable	\$4,446	\$8,480	\$11,526	\$14,490	\$17,206	\$56,147
Cost of Debt	\$15,587	\$26,555	\$34,836	\$42,894	\$50,280	\$170,153
	\$61,430	\$104,048	\$136,228	\$167,539	\$196,241	\$665,486
Taxable Income	\$11,575	\$72,451	\$115,895	\$155,922	\$193,626	\$549,470
Taxes						
State Tax	9.40%	\$1,088	\$6,810	\$10,894	\$14,657	\$51,650
Federal Tax	35.00%	\$3,670	\$22,974	\$36,750	\$49,443	\$174,237
Total Taxes		\$4,759	\$29,784	\$47,645	\$64,100	\$225,887
NET INCOME	\$6,817	\$42,666	\$68,251	\$91,823	\$114,027	\$323,583
Investment	\$402,770	\$686,169	\$900,164	\$1,108,376	\$1,299,236	\$879,343
Return on Investment	1.69%	6.22%	7.58%	8.28%	8.78%	7.36%
Add Back Cost of Debt	3.87%	3.87%	3.87%	3.87%	3.87%	3.87%
Return with Cost of Debt	5.56%	10.09%	11.45%	12.15%	12.65%	11.23%

Additional TLS-Lite Transport Speeds and 768 Kbps TLS-Lite Rate Reduction

Cost Model

A EXP. Expense Summary

			Year 1	Year 2	Year 3	Year 4	Year 5	Total
Loop Investment			\$61,205	\$116,744	\$158,681	\$199,484	\$236,887	
Circuit Equipment Investment			\$341,565	\$569,426	\$741,484	\$908,891	\$1,062,349	
Total Cumulative Investment			<u>\$402,770</u>	<u>\$686,169</u>	<u>\$900,164</u>	<u>\$1,108,376</u>	<u>\$1,299,236</u>	
Annual Carrying Charges								
Depreciation Circuit Equipment	12.12%		\$41,397	\$69,013	\$89,866	\$110,156	\$128,754	\$439,186
Depreciation Loop	7.26%		\$4,446	\$8,480	\$11,526	\$14,490	\$17,206	\$56,147
Maintenance Circuit Equipment	3.68%		\$12,574	\$20,963	\$27,297	\$33,460	\$39,110	\$133,404
Maintenance Loop	2.86%		\$1,750	\$3,339	\$4,538	\$5,705	\$6,774	\$22,106
Billing/Customer Service	2.88%		\$11,588	\$19,742	\$25,899	\$31,889	\$37,381	\$126,499
Other Overhead/Op Taxes	6.51%		\$26,210	\$44,651	\$58,577	\$72,126	\$84,546	\$286,109
Admin	3.31%		\$13,346	\$22,737	\$29,828	\$36,727	\$43,052	\$145,691
Marketing	0.66%		\$2,649	\$4,513	\$5,920	\$7,290	\$8,545	\$28,916
Product Management	0.06%		\$256	\$436	\$572	\$704	\$826	\$2,794
Uncollectibles	0.59%		\$2,369	\$4,036	\$5,294	\$6,519	\$7,642	\$25,860
Weighted Cost of Debt	3.87%		\$15,587	\$26,555	\$34,836	\$42,894	\$50,280	\$170,153
								\$0
Total Annual Capital Carrying Cost			<u>\$132,173</u>	<u>\$224,464</u>	<u>\$294,154</u>	<u>\$361,960</u>	<u>\$424,115</u>	<u>\$1,436,865</u>
Incremental Expenses								
Setup costs	\$ 357.59	100%	\$27,773	\$15,019	\$13,112	\$12,516	\$12,516	\$80,934
Transmission Studies	\$ 87.98	40%	\$2,733	\$1,478	\$1,290	\$1,232	\$1,232	\$7,965
Loop Qualification	\$ 306.51	20%	\$4,761	\$2,575	\$2,248	\$2,146	\$2,146	\$13,874
Remove Bridge Taps	\$ 1,114.70	2%	\$1,732	\$936	\$817	\$780	\$780	\$5,046
Total Incremental Expenses			<u>\$36,999</u>	<u>\$20,008</u>	<u>\$17,467</u>	<u>\$16,673</u>	<u>\$16,673</u>	<u>\$107,820</u>
Taxes								
State Tax	9.40%		\$1,088	\$6,810	\$10,894	\$14,657	\$18,201	\$51,650
Federal Tax	35.00%		\$3,670	\$22,974	\$36,750	\$49,443	\$61,399	\$174,237
Total Taxes			<u>\$4,759</u>	<u>\$29,784</u>	<u>\$47,645</u>	<u>\$64,100</u>	<u>\$79,600</u>	<u>\$225,887</u>
Total Expenses and Tax			<u><u>\$173,930</u></u>	<u><u>\$274,256</u></u>	<u><u>\$359,265</u></u>	<u><u>\$442,733</u></u>	<u><u>\$520,388</u></u>	<u><u>\$1,770,572</u></u>