

STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

G. Nanette Thompson, Chair  
Bernie Smith  
Patricia M. DeMarco  
Will Abbott  
James S. Strandberg

In the Matter of the Consideration of Changes to  
Regulations Governing the Dial-Equipment-Minute  
Weighting Provisions of the Alaska Universal  
Service Fund )  
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R-00-3<sup>1</sup>

ORDER NO. 2

**ORDER ADOPTING AMENDMENTS TO REGULATIONS**

BY THE COMMISSION:

Introduction

We issued proposed modifications<sup>2</sup> to 3 AAC 48.430 that would limit intrastate dial-equipment-minute (DEM) weighting support to local exchange carriers (LECs) with 20,000 access lines or less.<sup>3</sup> We determined that certain inequities in the current program resulted from changing the program from an implicit subsidy in intrastate access charges to the AUSF in 1999.

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<sup>1</sup>Department of Law File No. 993-00-0122.

<sup>2</sup>Order R-00-3(1), dated March 10, 2000 (Order No. 1).

<sup>3</sup>The DEM subsidy provided through the Alaska Universal Service Fund (AUSF) currently provides support to LECs with less than 50,000 access lines. The DEM subsidy helps to offset local (Category 3) switching equipment costs. See 47 C.F.R. § 36.125 for detail on the specific costs included in Category 3.

In particular we found that the majority of LECs benefiting from this program tended to have below-average local rates while some of the carriers not receiving intrastate DEM support had rates much higher than average. Our proposed amendment would alleviate that inequity until more permanent modifications are adopted based upon affordability.

GCI Communication Corp. d/b/a General Communication, Inc., and d/b/a GCI (GCI); Alaska Communications Systems, Inc. (ACS); and United Utilities, Inc. (UUI), filed comments in response to Order No. 1. ACS, GCI and Alascom, Inc., d/b/a AT&T Alascom (AT&T Alascom) presented oral comments at our April 28, 2000, public hearing on this matter.

AT&T Alascom, GCI, and UUI supported our proposed rule change. UUI, however, continued to advocate for a change to the method by which DEMs are counted (i.e., the elimination of the double counting of local minutes). ACS continued to oppose our proposed change and proposed that we defer changes to DEM-weighting rules until federal regulators conclude other access-charge and universal-service reforms. ACS alleged that by adopting a short-term fix we will be setting a *de facto* affordability standard that would be at odds with our decision to defer consideration of affordability.

ACS also argued that, if we proceed with our proposed changes to the DEM-weighting rules, implementation should be synchronized to allow alternative cost recovery without interruption. Specifically, ACS would like sufficient lead time to coordinate loss of AUSF DEM support with recovery through the provisions contained

in 3 AAC 53.110 – 3 AAC 53.140 (Jurisdictional Cost Allocation Factor Adjustment Procedures for LECs).<sup>4</sup> Further, ACS stated that DEM should be applied on a study-area basis, not a total-company basis, as we have clarified in Order U-99-56(9)/U-99-65(8)/U-99-66(8), dated December 10, 1999.<sup>5</sup>

### Discussion

We concluded that, ultimately, AUSF support should consider affordability rather than the cost of just one component of LEC's network (e.g., local switching equipment). However, as we have noted previously, changing the AUSF to incorporate an affordability standard is not a short-term option:

[W]hile affordability is an easily understandable concept, it is not simple to quantify. Establishing an affordability standard involves the development of both rate and nonrate factors and would likely involve a lengthy investigation. (Order No.1, p. 4.)

We reaffirm our decision to initiate by separate order an investigation into affordability and other long-term modifications to the intrastate universal service system.

We also reaffirm our conclusion that the current inequity in the DEM-weighting program requires a short-term fix. In taking this action we are not

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<sup>4</sup>The provisions of 3 AAC 53.110 establish procedural requirements for changes in jurisdictional cost allocation factors. Subsection (a) thereof provides that a cost company “may apply to adjust its local rates to comply with changes in jurisdictional cost allocation factors required by the . . . commission . . . .”

<sup>5</sup>Those Dockets pertain to the access-charge revenue requirements of the ACS affiliates formerly known as PTI Communications of Alaska, Inc.; Telephone Utilities of Alaska, Inc.; and Telephone Utilities of the Northland, Inc., respectively

establishing a *de facto* affordability standard.<sup>6</sup> Nor do we believe that this inequity is a perceived or non-existent problem.<sup>7</sup> As a basic matter of fairness, it makes little sense for customers paying close to \$30 per month to contribute to a for which they are largely ineligible<sup>8</sup> but which subsidizes the local rates of customers paying \$10 per month. This conclusion would hold no matter what we ultimately establish as the appropriate affordability level. We are therefore not establishing a *de facto* affordability standard but rather correcting a basic unfairness that went undetected for many years as a result of the implicit subsidies built into the intrastate access-charge rate structure.

Furthermore, no LEC will be harmed by this action. Our regulations already provide a simplified method for adjusting cost recovery for jurisdictional separations changes such as this.<sup>9</sup> The effective date of the new regulation, January 1, 2001, should provide sufficient opportunity for LECs to make the appropriate filings well before the loss of AUSF DEM support.

In addition to the effective date discussed above, we have also modified 3 AAC 48.430 to clarify that for LECs with multi-study areas, the DEM-weighting factor

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<sup>6</sup>April 14, 2000, Comments of the ACS Subsidiaries, p. 4.

<sup>7</sup>ACS comments, April 28, 2000, public hearing (Tr. 4).

<sup>8</sup>LECs throughout the state are eligible for lifeline assistance, a program that offsets the rates of low-income customers. However, the lifeline portion of the AUSF is very small in comparison to DEM-weighting support. Of \$900,377.72 disbursed in the first quarter of 2000, \$826,532.22 was for DEM support, \$58,845.50 was for Lifeline, and \$15,000 was for fund administration.

<sup>9</sup>See 3 AAC 53.110 – 3 AAC 53.140.

is applied on a study-area basis, not a total-company basis. This modification is consistent with prior Commission rulings.<sup>10</sup>

Finally, we have determined that the changes proposed by UUI should be considered at a later date. It is not clear to us that UUI's proposed change is in the public interest or would eliminate the inequities that we seek to eliminate.

**ORDER**

THE COMMISSION FURTHER ORDERS, That, the amendment to 3 AAC 48.430, as modified and set out in the Appendix hereto, is adopted.

DATED AND EFFECTIVE at Anchorage, Alaska, this 5<sup>th</sup> day of September, 2000.

BY DIRECTION OF THE COMMISSION

( S E A L )

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<sup>10</sup>See, for example, Order U-99-56(9)/U-99-65(8)/U-99-66(8), dated December 10, 1999. See n. 5, *supra*.

Register \_\_\_\_\_, \_\_\_\_\_, 2000 COMMUNITY AND ECON. DEV.

**3 AAC 48.430(e)(3) is amended to read:**

(e) 47 C.F.R. 36.125(b) - (f) are not adopted. The following applies:

...

(3) Effective January 1, 2001, the [THE] applicable weighting factor is as

follows:

NUMBER OF ACCESS LINES IN LOCAL EXCHANGE COMPANY <u>STUDY AREA</u>	WEIGHTING FACTOR
0 -10,000	3.0
10,001 - 20,000	2.5
20,001 <u>or above</u> [ - 50,000]	<u>1.0</u> [2.0]
[50,001 - OR ABOVE	1.0]

(Eff. 7/18/75, Register 55; am 11/25/83, Register 88; am 4/9/89, Register 110; am 3/28/90, Register 113; am 1/10/99, Register 149; am 5/20/99, Register 150; am \_\_\_/\_\_\_/\_\_\_, Register \_\_\_)

**Authority:** AS 42.05.141 AS 42.05.151 AS 42.05.401