

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Sam Cotten, Chairman  
Alyce A. Hanley  
Dwight D. Ornquist  
Tim Cook  
James M. Posey

In the Matter of the Consider-	)	
ation of Reform of Intrastate	)	R-97-5
Interexchange Access Charge	)	
Rules	)	ORDER NO. 7
_____	)	
In the Matter of the Consider-	)	R-97-6
ation of Intrastate Universal	)	
Service	)	ORDER NO. 7
_____	)	
In the Matter of the Selection of	)	
an Administrator of the Alaska	)	U-98-168
Universal Service Fund and Other	)	
Implementation Issues	)	ORDER NO. 1
_____	)	

**ORDER ADOPTING REGULATIONS AND CHANGES TO MANUAL;  
OPENING DOCKET TO CONSIDER AUSF ADMINISTRATOR;  
AND ESTABLISHING MEETING AND FILING REQUIREMENTS**

BY THE COMMISSION:

By Order R-97-5(3)/R-97-6(3), dated May 29, 1998 (hereinafter Order No. 3), the Commission issued proposed changes to regulations and the Alaska Intrastate Interexchange Access Charge Manual (hereinafter "Access Charge Manual" or "Manual").<sup>1</sup>

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<sup>1</sup>Department of Law File No. 993-98-0162.

In Order No. 3, the Commission invited public comment on proposed changes to the Access Charge Manual (contained in Appendix A to the Order); revisions to Commission regulations at 3 AAC 48.275(b), 3 AAC 48.430, 3 AAC 48.440, and 3 AAC 48.820; and a new article on universal service at 3 AAC 53.300 - 3 AAC 53.399.

Comments were received from the following entities: the Alaska Telephone Association (ATA); the Alaska Exchange Carriers Association, Inc. (AECA); Alascom, Inc. d/b/a AT&T Alascom (AT&T); ATU Long Distance, Inc. (ATU-LD); the Municipality of Anchorage d/b/a Anchorage Telephone Utility a/k/a ATU Telecommunications (ATU); GCI Communication Corp. d/b/a General Communication, Inc., and d/b/a GCI (GCI); GTE Alaska, Incorporated (GTE); PTI Communications (PTIC);<sup>2</sup> the Rural Coalition of Alaska (Rural Coalition);<sup>3</sup> Summit Telephone and Telegraph Company, Inc. (Summit); and United Utilities, Inc. (UUI).

Reply comments were received from the following entities: ATA, AT&T Alascom, ATU, GCI, GTE, PTI, the Rural Coalition, and UUI.

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<sup>2</sup>The filing by PTIC was a joint filing for Telephone Utilities of Alaska, Inc.; Telephone Utilities of the Northland, Inc.; and PTI Communications of Alaska, Inc.; collectively referred to as PTIC.

<sup>3</sup>The Rural Coalition represents Arctic Slope Telephone Association Cooperative, Inc.; Alaska Power & Telephone Company; Bristol Bay Telephone Cooperative, Inc.; Copper Valley Telephone Cooperative, Inc.; Ketchikan Public Utilities - Telephone Division; OTZ Telephone Cooperative, Inc.; and TelAlaska, Inc.

On August 24, 1998, a joint consensus regarding certain issues was filed by and between AT&T Alascom, ATU-LD, ATU, AECA, GTE, GCI, PTI, the Rural Coalition, ASTAC, and UUI.

A hearing was held before the Commission on August 24-25, 1998. At the hearing, AECA, AT&T, ATU, ATU-LD, GCI, GTE, PTI, the Rural Coalition, and UUI commented.

By Order R-97-5(5)/R-97-6(5), dated October 2, 1998, the Commission issued for comment a Commission Staff (Staff) Report dated September 15, 1998 (hereinafter, "Second Report"), and a Department of Law (DOL) Memorandum dated September 14, 1998 (hereinafter, "DOL memorandum"). The Commission noted that Staff's second report proposed a cost-recovery mechanism which had not been addressed by commentors. In that Order the Commission requested written comments on the new cost-recovery mechanism and the DOL memorandum. The Commission also scheduled a Special Public Meeting for October 14, 1998, for the purpose of addressing the DOL memorandum and Staff's second report; comments received in response to Staff's Second Report; and the proposed changes to the Manual and Commission regulations, previously set out in Appendices A and B, respectively, to Order No. 3.<sup>4</sup>

On October 9, 1998, the participants involved in filing the August 24, 1998, Joint Consensus filed a supplement to its

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<sup>4</sup>A Staff prepared summary of the comments filed on October 7, 1998, is attached at Appendix C.

Joint Consensus that addressed nontraffic sensitive (NTS) cost recovery for nonpooling local exchange carriers (LECs).

By Order R-97-5(6)/R-97-6(6), dated October 9, 1998, the Commission provided notice that commentors would be allowed up to twenty minutes at the October 14, 1998, special public meeting to address issues raised by Staff's Second Report and the DOL memorandum.

### Discussion

At its Special Public Meeting of October 14 and 16, 1998, the Commission adopted changes to its regulations and the Manual which, to a limited extent, differ from the proposed regulations and manual attached as exhibits to Order No. 3. Those changes and other significant features of the final regulations are discussed under the following two main subheadings: **Access Charge Revisions** and **Universal Service Reform**. The third section provides further direction to Staff, AECA, and other entities involved in access charge or universal service reform to assist in implementation of the new system by January 1, 1999.

### **ACCESS CHARGE REVISIONS**

#### *Pooling*

Background: In Order No. 3, the Commission proposed adding the following language to § 001 of the Manual:

An ILEC [incumbent local exchange carrier] shall not participate in the access charge pool after a certificated CLEC [competitive local exchange carrier] provides local switched access service in the ILEC's service area through the CLEC's facilities or through unbundled rate elements.

This section proposes mandatory depooling and is opposed by ATU and AECA. ATU stated that until the Commission comprehensively addresses the financial implications of an ILEC's historical "carrier of last resort" obligations, it is unfair, inequitable, and possibly confiscatory to require an ILEC to exit the pool. AECA noted that in the federal counterpart, NECA,<sup>5</sup> an LEC may withdraw from the traffic-sensitive pool while remaining in the NTS pool. AECA stated that while an LEC may choose to withdraw from AECA's pool for competitive reasons, other considerations might cause it to choose not to withdraw - e.g., the efficiency of funds management.

The majority of the commentors either supported mandatory depooling in the face of competition (ATA, AT&T, GCI, PTI) or voiced no objection to the provision (Rural Coalition, UUI). GCI stated that depooling must be mandatory as long as pooled NTS costs are recovered via a bulk bill. Given a bulk bill, ILECs would be totally protected from the rate effects of competition. GCI also asserted that if ATU were to remain in the NTS pool, the interexchange carriers (IXCs) would have to continue

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<sup>5</sup>"NECA" is the National Exchange Carriers Association, Inc.

paying for ATU's NTS costs even if the IXCs substantially reduced their use of ATU's NTS facilities. GCI also noted that the NECA parallel cited by ATU is inexact because NECA does not rely on a bulk bill to fund NTS costs, but rather relies on a combination of the subscriber line charge (SLC) and a per-minute common carrier line charge (CCLC). Hence, IXCs that do not use an ILECs facilities can avoid paying its NTS costs since the carrier CCLC can easily be bypassed.

Decision: The Commission affirms the policy proposed in Order No. 3 which prohibits CLECs from participating in the AECA pool, which requires ILECs to participate in the AECA pool until they face local exchange/access competition. Upon the commencement of competition, the ILEC must exit the AECA pool.

The arguments for and against mandatory depooling can be traced back to the structure of the bulk bill. The bulk bill has proven to be a very effective mechanism for ensuring that IXCs contribute towards the NTS costs of the noncompetitive LECs participating in the pool.

Because the bulk bill is the largest component of the AECA pool, and the portion in which ATU wishes to remain, it is useful to reflect on the Commission's original rationale for its adoption. The bulk bill approach was originally suggested by AT&T Alascom, then the sole contributor to the AECA pool, and was approved by the Commission in Order R-87-1(11), dated

October 26, 1989. In that Order the Commission reasoned as follows:

Under bulk billing, collection of a large portion of the LECs annual revenue requirement is assured and insulated from potentially inaccurate determination of billing units (demand). Use of the bulk bill to collect NTS costs will also provide an even cash flow to the LECs, whereas seasonal fluctuations in demand would cause an uneven cash flow if NTS costs were collected on a usage sensitive basis. The Commission also finds valid the argument that NTS costs by their nature do not fluctuate with traffic and should not, or at least need not, be collected on a per minute basis rather than on a flat basis.

Order R-87-1(11), pp. 16-17.

As provided in the Manual, when GCI joined AT&T Alascom as an IXC pool contributor, their joint contributions to the pool began to be apportioned on a market-share basis, measured by retail minutes of use (MOU). The method by which IXCs contribute to the pool is totally decoupled from the method by which ILECs draw support from the pool. This decoupling is a highly effective means of ensuring support for monopoly local service while allowing vigorous competition in interexchange markets.

However, the very qualities that make the statewide bulk bill relatively invulnerable to bypass pressures also make it inappropriate for use in a competitive market with multiple LECs. The existing recovery mechanism is not compatible with local exchange competition. It ensures the ILEC will recover the toll related portion of its NTS costs, regardless of how well or

how poorly it fares in the competitive market. For instance, even if an ILEC were to lose half its local customers, it could potentially continue to recover the same level of NTS revenue from the IXCs, via the pooled bulk bill. The Commission recognizes that allowing an ILEC facing competition to remain in the pool would insulate it from competition and discriminate against the CLECs.

Allowing an ILEC to remain in the pool could provide it with a guaranteed revenue stream and assured recovery of NTS costs that would not be available to competing local carriers. The Commission also recognizes that it would not be practical to solve this discrimination problem by adding the new competitors to the pool.

First, it will be difficult, if not impossible, to mingle rate-of-return regulated carriers with those who are not so regulated. Second, if competing carriers are allowed into the pool, this could potentially balloon the size of the pool and burden IXCs (and their customers) with excessive levels of NTS costs - those of the incumbent plus those incurred by the various new entrants. Since NTS costs do not necessarily decline when an ILEC loses market share, and since new entrants may build new NTS facilities that do not fully exploit potential economies of scale, the total size of the pool could rapidly escalate if new entrants are given the option of joining the pool. The Commission,

therefore, agrees with the majority of commentators that it is necessary to require ILECs facing competition to exit the pool.

The Commission is not persuaded by ATU's "taking" argument; the Commission does not believe that it is necessary to completely shield incumbents from competitive pressures. It is neither desirable nor necessary for ILECs to remain in the AECA pool in order to have a reasonable opportunity to recover their NTS costs. The treatment of depooled LECs that the Commission adopts herein (see sections below labeled NTS Cost Recovery for Nonpooling ILECs and CLECs) is a fair and equitable one. It provides the ILECs with a reasonable opportunity to continue to recover the intrastate toll portion of their NTS costs from the IXCs that use their network. To the extent they lose market share, or otherwise have difficulty in maintaining their NTS-related revenue stream, there will be offsetting opportunities to garner additional revenues and profits from other markets. For example, while ATU may lose some NTS related revenues due to encroachments by GCI-LEC, ATU has the opportunity to gain new revenues in the long distance market through its affiliate, ATU-LD.

#### *Carrier Withdrawal Mechanism*

Background: As discussed above, the Commission proposed, in Order No. 3, that an ILEC would be required to remain in the AECA pool until a competitive "trigger" required them to

leave. The trigger would occur when a certificated CLEC provides local switched access service in an ILEC's service area through the CLEC's own facilities or through unbundled rate elements. CLECs would not have been permitted in the AECA pool under any scenario.

Although wide-ranging opinions on these issues were voiced in the two rounds of comments, they have been partly superseded by the proposals in the Joint Consensus. According to the Joint Consensus, a carrier's withdrawal from the AECA pool should be consistent with the guidelines summarized below:

1. An ILEC would give at least 60 days' written notice to AECA and the Commission.

2. Recomputation by AECA, within 30 days following such notice, of the pooled access charges, consistent with Manual §703(a) - (I).

3. Revised tariffs based on the recomputation to become effective 30 days after filing with the Commission, coinciding with the ILEC's date of withdrawal.

4. The Commission to disapprove or modify any such tariff that is unjust or unreasonable or unduly either favors or disadvantages any customer.

Staff contended that while the commentators are generally correct that the modification of the AECA tariff requires more lead time following the exit of an ILEC, it believes that the consensus proposal requires further refinement in several respects. First, Staff argued it is not appropriate for the ILEC (or the CLEC for that matter) to provide the triggering notice. Instead the trigger should be based upon certification of the first CLEC in the ILEC's service area that is authorized to provide intrastate interexchange access service using its own facilities or using unbundled elements. Accordingly, Staff recommended that when the Commission grants a certificate of this type, it also should direct the ILEC and the AECA to make the appropriate tariff filings. Staff noted that although this places greater responsibility on the Commission to coordinate market entry, it is a function more appropriately undertaken by the Commission than delegated to either the ILEC or the CLEC. If one of these entities is required by rule to invoke the trigger, but it fails to do so, extensive delays could be experienced until the necessary enforcement process was invoked in order to force the ILEC in question to fulfill its responsibility.

Second, Staff argued that current tariff filing requirements for AECA should remain in place. Staff stated that the entities did not provide sufficient justification for automatic tariff approval on a shortened time line and that, in

any case, revised AECA rates will need to be coordinated with the filing, notice, review, and approval of the ILEC's access tariff. Given that the ILEC's tariff filing may also include a petition to deaverage access rates, Staff stated that a minimum of 45 days for Commission consideration will be absolutely necessary.

The only objection to Staff's proposal was that it could lead to premature exit of an ILEC from the AECA pool if the Commission certificated a facility based CLEC that initially proposed to provide service only through resale.

Decision: The Commission has determined that the carrier withdrawal mechanism proposed in Order No. 3 is sound in concept but requires additional detail in order to work successfully. Specifically, the Commission believes that it is necessary to tie the exit date of the ILEC from the AECA pool to the date that the first CLEC will begin providing facilities-based access service.<sup>6</sup> The Commission believes that the language proposed by Staff as further modified at the special public meeting on October 16, 1998, accomplishes this goal while also addressing PTIC concerns regarding premature exit of the ILEC from the AECA pool. Accordingly the Commission adopts the following language for §§ 001(d)-(e) of the Manual:

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<sup>6</sup>"Facilities-based access service" refers to a CLEC's use of its own facilities or unbundled network elements to compete in an ILEC's service area.

(d) Participation in the access charge pool by an ILEC is mandatory until the exit date specified by commission order. The exit date will be specified in the same order that issues a certificate of public convenience and necessity to the first CLEC to provide local switched access service, through the CLEC's facilities or through unbundled rate elements, in the ILEC's service area. The exit date shall be coordinated by the commission to coincide with approval or revision of the ILEC's access tariff, the CLEC's access tariff, AECA's revised access tariff, and the commencement of service by the CLEC utilizing unbundled network elements or its own facilities. Participation by the ILEC in the AECA pool is prohibited on or after the exit date.

(e) Participation by a CLEC in the access charge pool is prohibited.

*Changes to the Pool Bulk Bill*

Background: In Order No. 3, the Commission proposed to calculate market share (for purposes of distribution of the pooled bulk bill between IXCs) based on "access" MOU rather than "retail" MOU. The Commission also proposed to dispense with the weighting of MOU in the calculation of market share. There appears to be little, if any, objection to these changes.

Decision: The Commission affirms its proposal in Order No. 3 to eliminate bulk bill weighting and to shift from retail MOU to access MOU as a measure of market share. As the Commission recognized in that Order, the shift from retail to access minutes is necessary because the bulk bill will no longer recover the NTS costs of all LECs as ILECs leave the AECA pool. A retail minute, which includes both an originating access minute and a terminating

access minute, can span from the wire center of a competitive (nonpooling) LEC to the wire center of a noncompetitive (pooling) LEC. For that reason, it makes more sense to break the retail minute into its component originating and terminating access minutes and to include in the pooled bulk bill only the access minutes associated with noncompetitive, pooling LECs.<sup>7</sup>

Although the current bulk bill includes a weighting system, the Commission has determined that it will not retain this aspect of the existing system. No support for maintaining these weighting elements was stated in written or oral comments, and the Commission believes these weighting elements can safely be dispensed with. IXCs are increasingly moving away from mileage banded retail rates, and to a lesser extent, from time-of-day (TOD) differentials. Elimination of the weighting system will simplify the bulk bill calculations and simplify the process of converting to a mechanism based upon access minutes rather than retail minutes.

The Commission recognizes that elimination of the weighting system could potentially result in a shift in the overall pattern of retail toll rates. For instance, elimination of the TOD differential could conceivably induce IXCs to modify

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<sup>7</sup>The switch from retail to access minutes also means, as suggested by GCI, that it is no longer necessary to include surrogate minutes for private lines that are now provided for in §105(e) of the Manual. Therefore, that section should be repealed.

their retail rates in a manner that will be favorable to business customers and unfavorable to residential customers, who tend to place more of their calls in the off-peak evening, night and weekend time periods.

Similarly, eliminating the urban/rural weights will tend to shift costs away from urban areas and towards rural areas. However, the primary beneficiary of this system is AT&T Alascom, which is not urging its continuation. Provided the IXC's continue to charge statewide uniform retail rates (as required by 3 AAC 52.370(a)), elimination of this aspect of the current system may not have a significant adverse impact on rural long distance customers. If it proves necessary to provide explicit high cost support for rural areas in order to maintain the viability of statewide average toll rates and to protect rural customers from excessive long distance charges, this can be accomplished through an universal service fund (USF) or through further refinement of the access charge system. In this regard, it is important to note that in this proceeding the Commission is dealing with transitional modifications to the access charge rules. There will be an opportunity to revisit this and other issues in a subsequent phase of this proceeding.

*NTS Cost Recovery for Nonpooling ILECs and CLECs*

Background: In Order No. 3, the Commission proposed (in § 104 of the Manual) that a portion of the NTS costs of depooled ILECs and CLECs be recovered via a charge paid by the IXCs based upon a flat rate per presubscribed line. This flat per-line rate design has been referred to as a "PICC," since it is similar to the Federal Communications Commission's PICC (presubscribed inter-exchange carrier charge). In this Order the Commission will also adopt this terminology.

Section 104(d) of the proposed regulations would have allowed a carrier to petition for deaveraging of the PICC, which must otherwise be averaged throughout the LEC's serving area under § 116(a). Section 104(e) would prohibit IXCs from passing the PICC directly through to end-users as a separate line item charge.

The proposed PICC approach drew limited support from commentors in the initial round of comments. For instance, the Rural Coalition stated that the PICC best allows for the deaveraging that will be needed in facing competition. GTE stated that the proposed per-line methodology is administratively simple and nondiscriminatory and agrees that if an NTS related access rate element is used, it should be assessed on a flat-rated, per-line basis, regardless of line type. GTE also argued that the PICC still involves an implicit subsidy that must ultimately be replaced to provide correct market signals and to preclude uneconomic choices, cream skimming, and arbitrage. GTE argued

that the PICC is discriminatory in that only IXCs would provide support. PTIC expressed a preference of the PICC over the current bulk bill system.

Some commentators argued that IXCs should be free to pass the PICC directly through to end users. This is a crucial difference, since the proposed rules would preclude direct pass-through of the PICC. The pass-through prohibition was a crucial element of the proposed mechanism which was intended to make the PICC less disruptive to end users.

A number of the commentators suggested that there were serious flaws with the PICC approach. For one thing, it would place the entire burden of toll-related NTS support on the particular IXC that is presubscribed for outgoing toll calls. This is different from the approach used in the rest of the state (i.e., the noncompetitive areas), where NTS costs are recovered from multiple IXCs, in proportion to their share of the overall market, including both originating and terminating traffic. As GCI pointed out, if a PICC is used in Anchorage, while a bulk bill continues to be used elsewhere in the state, no NTS costs will be recovered from terminating access minutes in Anchorage, whereas terminating access minutes in all other locations will carry access charges.

Furthermore, as several entities noted, the PICC approach can be avoided by dial-around carriers, thereby providing

an undue cost advantage to carriers that originate traffic using calling cards, 800 numbers, and dial-around access codes (e.g. 10XXXXX). The entire burden of the NTS costs would be borne by presubscribed IXC's, with none of these costs being borne by other IXC's, despite the fact that other IXC's also benefit from the NTS facilities in question. GCI further pointed out that the PICC gives IXC's the incentive to configure the PBXs<sup>8</sup> of large customers in inefficient ways, segregating trunks carrying intrastate toll traffic from those carrying local and interstate traffic.

GCI also noted that PICCs would exist only in a few competitive areas while bulk-bill NTS recovery would continue to exist in all other locations. Differences between the PICC approach and the bulk bill approach could potentially create distortions in the market, since IXC's would face markedly different NTS-related cost structures in different parts of the state, yet are required to levy statewide average toll rates. PTIC said the PICC is an improvement over the current bulk bill but will not be sustainable in the long run because the proposed system creates too many incentives to bypass.

ATU-LD and GCI pointed out that some of the alleged problems associated with the PICC would vanish if it were passed through to end users (or if a pure SLC were used instead). A similar solution was favored by AT&T Alascom and by GTE, which

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<sup>8</sup>"PBXs" refers to private branch exchanges.

insisted that the burden of loop costs should fall on individual end users, not IXCs, since they are supposedly the "cost causer." As GTE noted, this would solve the bypass problem and could be applied to pooled and nonpooled LECs alike.

GCI stated that without a pass-through, IXCs would have to recover the PICC through usage-based charges, and this usage-based price signal to consumers would defeat the theoretical advantage of the PICC. GCI also argued that if the PICC could be passed through, the major problems of gaming the system will be avoided.

ATU-LD argued the same point and added that restricting pass-through would delay long distance usage rate decreases which should result from the access charge reforms. If IXCs merely continue to charge the same per-minute rates, ATU-LD claimed little will have been accomplished by this access charge reform. ATU-LD also stated that the proposed prohibition would mandate implicit subsidies between long distance users - some will pay more than their share of costs while others will pay less, depending for the most part on their usage levels.

In place of the PICC, GCI proposed a per-minute CCLC. GCI argued that the per-minute CCLC represents only an incremental change from the present bulk bill system, rather than a wholesale revision, and would permit a gradual transition to a more competitive market. GCI also contended that customers who make fuller use of the network contribute to the cost of the network.

The Rural Coalition supported the per-minute approach, at least as a transitional measure, as long as both ILECs and CLECs are required to use it and deaveraging on an exchange basis is permitted. But the Rural Coalition noted that heavier toll users might pay more than their fair share of NTS costs while lighter users might pay less than their fair share.

Regarding the PICC, the Rural Coalition responded that a PICC passed through to end users is essentially a SLC that removes all IXC NTS support in favor of what amounts to an increase in local rates. The Rural Coalition pointed out that a SLC approach has previously been rejected by the Commission because of its "chilling effect" on universal service. UUI stated that the IXCs are paying for the use of NTS facilities and, like other costs of doing business, the NTS charges should be recovered through toll rates.

Staff argued that the commentors have demonstrated that the proposed PICC approach is flawed. Staff echoed the comments of others that suggested that if it were applied only to competitive areas, it would create unacceptable market distortions since the IXCs would face markedly different NTS related rates in competitive areas (which would utilize the PICC) and in non competitive areas (which would utilize the bulk bill). Staff also agreed that the proposed prohibition against pass-through of the PICC is problematical because: it may not be sustainable; it

could be too abrupt a shift from longstanding patterns of cost recovery (given the Commission's goal for this phase of this proceeding); it could lead to geographically-deaveraged rates; and it could lead to high-cost rural customers subsidizing low-cost urban customers.

In place of the PICC, Staff proposed a Carrier and Area Specific Bulk Bill (CASBB). Under the CASBB, the overall amount of NTS cost each LEC would be entitled to recover from IXCs would be based upon a per-line price cap. The rate cap would be an amount equal to the depooling ILEC's most recent NTS intrastate access revenue requirement divided by the ILEC's total number of access lines just prior to depooling. As shown in the accompanying schematics (Appendix D), this cap in the ATU area would be approximately \$4.50 per line per month. Recovery of this per-line amount (e.g., \$4.50) would be split between originating and terminating access categories. For instance, the LEC might recover \$2.25 per line from IXCs for originating traffic and \$2.25 per line from IXCs for terminating traffic. Each LEC would calculate and assess two monthly bulk bills for the service area in question - a bulk bill for originating switched access and a bulk bill for terminating switched access.

The originating and terminating per-line amounts would be set forth in each LEC's switched access tariff, which would be subject to review and approval by the Commission. These

originating and terminating per-line amounts would not necessarily be identical, but their sum could not exceed the overall price cap (\$4.50 in the Anchorage example).

Each LEC would have some flexibility (subject to certain limitations) in determining what dollar amount per line to recover from the originating bulk bill and what amount to recover from the terminating bulk bill. The amount selected by the LEC would be set forth in its switched access tariff and, thus, would be subject to review and approval by the Commission. However, rates which fall within the specific guidelines set forth in the access charge rules would be presumed to be valid and would normally go into effect without the necessity of a hearing. More specifically, the per-line originating amount would be capped at the overall per-line rate cap (e.g., not more than \$4.50, in the Anchorage example), but it could be less.

The per-line terminating amount would be capped at the total per-line amount (rate cap) less the greater of (1) the originating per-line amount specified in the LEC's tariff, or (2) \$2.<sup>9</sup> Thus, in the Anchorage example, if an LEC set the originating per-line amount at \$3.00, the terminating amount would

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<sup>9</sup>This calculation may be expressed as follows:

[Rate cap] - [Greater of (originating amt.) or (\$2)] = Maximum terminating amt.

be capped at \$1.50 per line.<sup>10</sup> If the LEC decided instead to set the originating per-line amount at \$1.50, the terminating per-line amount would be capped at \$2.50.<sup>11</sup>

The total dollar amount of the originating bulk bill would be determined each month by multiplying the originating per-line amount specified in the LEC's tariff times the current number of revenue-producing switched access lines operated by the LEC within the specific service area. Similarly, the terminating bulk bill would be determined each month by multiplying the terminating per-line amount specified in the LEC's tariff times the current number of revenue producing switched access lines operated by the LEC within the specific service area.

Each month, the LEC would charge each IXC that IXC's pro rata portion of the LEC's originating bulk bill based on each IXC's portion of the LEC's originating switched access minutes (not retail minutes) in the specified area. Similarly, the LEC would charge each IXC a pro rata portion of its terminating bulk bill based on each IXC's portion of the LEC's terminating switched access minutes in the specified area. Two of the schematics (Appendix D; pages 2 and 4) detail examples of the CASBB mechanism

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<sup>10</sup>E.g.        \$4.50 - [Greater of (\$3.00) or (\$2.00)] = \$1.50  
              \$4.50 -                    \$3.00                                        = \$1.50

<sup>11</sup>E.g.        \$4.50 - [Greater of (\$1.50) or (\$2.00)] = \$2.50  
              \$4.50 -                    \$2.00                                        = \$2.50

for two hypothetically depooled ILECs: ATU and PTI's Sitka operations. The other schematics (Appendix D; pages 3 and 5) detail this bulk-billing mechanism for a potential CLEC in the Anchorage and Sitka service areas.

Staff noted that the CASBB is superior to the PICC and the per-minute approaches in a number of respects. For one, under the PICC, the entire NTS access burden is placed on the customer's presubscribed carrier, giving other carriers (i.e., dial-around carriers and carriers terminating traffic) a free ride. The CASBB avoids this problem because it can be assessed on all IXCs that benefit from the subscriber line.

The CASBB also avoids some of the volatility of a per-minute charge. This is because, like the PICC, it is essentially an NTS recovery mechanism for the LEC. While the LEC's NTS cost recovery will increase over time (as the number of lines grow), it will not increase with the level of traffic. In other words, it will avoid an overrecovery for the LEC when traffic increases but will also ensure the LEC recovers NTS costs even if traffic temporarily decreases.

On October 7, 1998, the commentors in this proceeding filed a supplemental joint consensus requesting that the Commission adopt the CASBB NTS cost recovery system proposed by Staff. Specifically, the commentors requested that the Commission adopt regulations consistent with the following consensus points:

1. The Parties request the Commission to adopt the CASBB, as proposed and described by Commission Staff in its Report of September 15, 1998, as an initial step to resolve the issue of NTS recovery for non-pooling LECs beginning January 1, 1999.

2. The Parties agree that adoption of the CASBB constitutes only transitional access charge reform.

3. The Parties request that the Commission require quarterly reports from nonpooling facilities-based LECs during 1999 on the operation of the CASBB in the Anchorage market, that the Commission sponsor a workshop to study the operation of the CASBB early in the year 2000, and that the Commission review the operation of the CASBB based on the reports and the results of the workshop. The quarterly reports of each LEC shall include, for each month and for the separate originating and terminating bulk bills, the calculation of the monthly bulk bills, the market share of each interexchange carrier, the amount billed to each interexchange carrier, and a discussion of any significant issues regarding implementation of the CASBB.

4. The Parties agree that implementation of the CASBB should be based on the following guidelines:

a. The dollars per line price cap should be based on the last approved intrastate NTS revenue requirement of the ILEC, divided by the number of revenue-producing lines served by the ILEC at the end of the test period for the revenue requirement.

b. In the determination of the maximum monthly bulk bill(s) of each non-pooled LEC, the number of revenue-producing lines shall be based either on the average of beginning of period and end of period number of lines, or based on such other line count that is reasonably synchronized with the billing period.

c. In the count of revenue-producing lines necessary for the calculations set out in (a) and (b) above, the Parties wish to rely to the extent possible on the count of lines required for existing reports (such as to the NECA), and the federal definitions

used for such counts, rather than creating new counting requirements. However, at this time the Parties have been unable to determine conclusively whether or not the federal definitions used for existing reports are entirely appropriate in purposes of CASBB calculation, and the Parties will further investigate that issue.

d. The monthly access minutes of interexchange carriers used to determine market share shall be reasonably synchronized with the calculation of lines served.

Decision: The CASBB is an adequate transitional option for NTS access charge cost recovery. The Commission concurs with Staff's analysis and recommendations regarding the CASBB, and therefore adopts the CASBB as proposed by Staff's second report, as the method of NTS cost recovery for nonpooling LECs. The regulatory provisions which describe the operation of the CASBB will be included in § 104 of the Manual. The Commission has also determined that it will adopt all of the consensus points described in the Supplement Joint Consensus under the heading NTS Cost Recovery for Nonpooling LECs. Section 104 of the Manual, as proposed in Order No. 3, is hereby amended as follows:<sup>12</sup>

**104. CARRIER COMMON LINE FOR NONPOOLING COMPANIES.** (a) A charge that is expressed in dollars and cents per line per month shall be assessed upon all certificated interexchange carriers based on their number of presubscribed lines, and a charge that is expressed in dollars and cents per access minute of use shall be assessed upon nonpublic utilities that provide interexchange service and all *de minimis*

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<sup>12</sup>In references in this Order to the proposed regulations and/or the manual, additions are underlined and deletions are [IN ALL CAPITAL LETTERS AND ENCLOSED IN BRACKETS].

carriers registered under 3 AAC 52.361. The charges of this paragraph however shall not be assessed upon interexchange carriers to the extent that they resell intrastate MTS or MTS-type services.

(b) A monthly carrier common line (CCL) rate cap shall be determined by dividing the last approved intrastate NTS revenue requirement of the ILEC by the number of revenue producing lines served by the ILEC at the end of the test period for the revenue requirement. [THE INITIAL MINUTES OF USE CARRIER COMMON LINE CHARGE FOR ANY GIVEN SERVICE AREA SHALL BE DETERMINED BY DIVIDING THE ILEC'S MOST RECENT CARRIER COMMON LINE REVENUE REQUIREMENT, PRIOR TO LEAVING THE POOL, BY THE TOTAL DEMAND UNITS APPROVED BY THE COMMISSION FOR THAT RATE ELEMENT IN THE INCUMBENTS MOST RECENT ACCESS CHARGE RATE PROCEEDING.]

(c) The monthly originating bulk bill shall be determined by first multiplying the originating component of the LEC's rate cap by the LEC's revenue producing switched access lines. The number of revenue producing access lines shall be based either on the average of beginning of period and end of period number of lines, or based on such other line count method approved by the commission that is reasonably synchronized with the billing period. [THE INITIAL PER LINE CARRIER COMMON LINE CHARGE SHALL BE DETERMINED BY SUBTRACTING THE PROJECTED ANNUAL REVENUE FROM THE MINUTES OF USE CARRIER COMMON LINE CHARGE, AND THEN DIVIDING IT BY TWELVE TIMES THE NUMBER OF PRESUBSCRIBED ACCESS LINES IN THE ILEC'S SERVICE AREA. EXAMPLE: INITIAL PER LINE CCL CHARGE = (INCUMBENT'S CCL REVENUE REQUIREMENT - ANNUAL MOU CCL REVENUE) ÷ (12 \* # OF LINES)]

(d) The monthly terminating bulk bill shall be determined by first multiplying the terminating component of the LEC's monthly CCL rate cap by the LEC's revenue producing switched access lines. The number of revenue producing access lines shall be based either on the average of beginning of period and end of period number of lines, or based on such other line count method approved by the commission that is reasonably synchronized with the billing period. [A NONPOOLING ILEC MAY PETITION THE COMMISSION TO DE-AVERAGE ITS PER LINE CARRIER COMMON LINE CHARGE.]

(e) The originating component of the LEC's monthly CCL rate cap is an amount expressed in dollars and cents per month and must be less than or equal to the monthly CCL Rate Cap. [A PER LINE CARRIER COMMON LINE CHARGE MAY BE RECOVERED BY AN INTEREXCHANGE CARRIER THROUGH RATES BUT SHALL NOT BE PASSED DIRECTLY THROUGH TO END USERS AS A SEPARATE LINE ITEM CHARGE.]

(f) The terminating component of the LEC's monthly CCL rate cap is an amount expressed in dollars and cents per month and shall be less than or equal to the LEC's monthly CCL rate cap minus \$2.00.

(g) The sum of the terminating component of the LEC's monthly CCL rate cap plus the originating component of the LEC's monthly CCL rate cap must be less than or equal to the LEC's monthly CCL rate cap.

(h) An LEC's monthly CCL rate cap and the originating and terminating components of the LEC's monthly CCL rate cap must be specified in the LEC's tariff.

(i) An LEC's monthly originating CCL charge to an IXC shall be determined each month by multiplying the LEC's monthly originating bulk bill by the IXC's proportionate originating market share for the month measured by the IXC's access minutes originating on the LEC's facilities. An access customer that generates chargeable access minutes is considered an IXC for purposes of this subsection.

(j) An LEC's monthly terminating CCL charge to an IXC shall be determined each month by multiplying the LEC's monthly terminating bulk bill by the IXC's proportionate terminating market share for the month measured by the IXC's access minutes terminating on the LEC's facilities.

(k) For purposes of this section, the LEC that initially transmits an interexchange call for an end user, before transferring it to any other carrier, is the originating LEC. The originating LEC is entitled to collect originating switched access charges from the originating IXC.

(l) For purposes of this section, the LEC that delivers an interexchange call to the end user that receives the call is the terminating LEC. The terminating LEC is entitled to receive terminating switched access charges from the terminating IXC.

(m) The first IXC to transmit an interexchange call after it is transferred from the local exchange network is the originating IXC. The originating IXC must pay the originating switched access charges.

(n) The last IXC to transmit an interexchange call before it is transferred to the local exchange network is the terminating IXC. The terminating IXC must pay the terminating switched access charges.

(o) All of the IXCs and LECs involved in the transmission of interexchange calls must provide interconnecting carriers with sufficient information to allow accurate billing of both originating and terminating switched access charges.

(p) An access customer that generates chargeable access minutes is considered an IXC for purposes of this subsection.

(q) A nonpooling LEC may petition the Commission to deaverage the monthly CCL rate cap established for an ILECs study area. The LEC petitioning to deaverage has the burden of proving that:

(1) substantial cost differences exist within the study area;

(2) the proposed deaveraging is an appropriate regulatory response to those differences; and

(3) the proposed deaveraging is in the public interest.

(r) Zone differentials proposed by the petitioning LEC shall be based upon a forward looking cost model that:

(1) apportions the ILEC's most recent CCL revenue requirement to each zone based on the percentage of each zone's total loop cost;

(2) divides each zone's apportioned CCL revenue requirement by total active loops to get the CCL rate cap by zone;

(3) relies on publicly available data;

(4) is subject to scrutiny by all interested Parties; and

(5) is not susceptible to manipulation or designed to advance the petitioners strategic interests.

(s) Within ten business days following the rendering of a monthly carrier common line bill, the LEC rendering such bill shall file a Monthly Carrier Common Line Report. The Monthly Carrier Common Line Report shall include, for the separate originating and terminating bulk bills: the calculation of the monthly bulk bills, the market share of each interexchange carrier, and the amount billed to each interexchange carrier.

#### *Deaveraging in Nonpooling Areas*

Background: The Commission's proposed amendment to the Manual at §116(a) would require that NTS charges (per-line or per-minute) be averaged. However, the proposed §104(d) allows a carrier to petition to deaverage the proposed PICC.

The IXCs opposed deaveraging of access charges. AT&T Alascom argued that the LECs' desire to deaverage is an acknowledgment that the CCLC subsidy should not be recovered as part of access charges, but rather should be part of the local rate:

Permitting the LECs to deaverage the CCLC without simultaneously rebalancing local rates is a huge barrier to competitive entry because loop costs in many cases will exceed local rates. (AT&T Alascom Reply Comments, p. 6.]

GCI stated that deaveraging would be "contrary to the public interest"; deaveraging, if allowed, would further necessitate a pass-through of the PICC. GCI contended that, at most, the Commission should adopt its proposed §104(d), which allows ILECs to petition for deaveraging. If deaveraging is nevertheless adopted, the Commission should require the ILEC to also deaverage the underlying unbundled loop rate.

GCI noted that ATA, the Rural Coalition, and PTI appeared to favor deaveraging both within exchanges and between exchanges within a company's study area. According to GCI, deaveraging PICCs between exchanges puts more and more costs on the IXC serving rural areas, making these areas even less profitable to serve with statewide average toll rates. GCI stated that it is fair that some of the burden of geographically averaged IXC rates fall on the LECs. GCI also claimed that accurate deaveraging is virtually impossible in that ILECs will try to allocate many costs to rural, less competitive areas, protecting revenue from competition.

ATA, the Rural Coalition, and other ILECs urged the Commission to allow deaveraging. ATA argued that a CLEC/IXC that can purchase unbundled network elements (UNEs) and PICCs at the

ILEC's average cost will always have access to the low density, unusually long loops at rates that are well below the ILEC's cost, and the ILEC will be unable to recover its cost for these loops. They argued that the problem is exacerbated because the CLEC/IXC can decide to build its own facilities where loop costs are relatively low (thereby avoiding the average PICC/UNE rates in the low-cost areas). In effect, they point out, the CLECs and IXCs have the best of both worlds: they can build their own facilities at low cost in the ILEC's low-cost areas, and they can rent the ILEC's facilities at average rates in high-cost areas. The ILECs also argued that deaveraging should be an entitlement.

PTI shared the concerns of the other ILECs. Moreover, PTI also argued that deaveraging should be allowed not only between exchanges but also within exchanges.

The ability to target cost recovery to the provision of services in higher cost areas is absolutely critical to the preservation of universal service in the emerging competitive environment. Every wire center has a mixture of higher cost and lower cost facilities dedicated to serving various customers. Predictably, the lower cost facilities extend to customers located in the core area of the wire center where there is higher customer density and shorter lines. Conversely, the higher cost facilities typically extend to the customers located outside the core area where there is less customer density and longer lines. (PTI Comments, p. 4.)

PTI also emphasized that the Manual should make clear that the deaveraging referred to is deaveraging of ceilings, not simply price deaveraging under a single ceiling based on average costs.

While Staff conceded the possibility of situations in which an ILEC should be permitted to deaverage its access charge rates, it does not believe that the Commission should uncritically endorse deaveraging on the basis of the limited record developed in this proceeding. According to Staff, the examples cited by PTI and others rely in part on assumptions that may or may not be applicable in practice. For instance, they ignore the possibility of the Commission's requiring a CLEC to provide service uniformly throughout the ILEC's service area. Similarly, they assume that a CLEC will be able to purchase unbundled loops in high-cost areas at an average rate, even though the Commission has adopted no permanent UNE rates, nor has it determined whether or not permanent loop rates should be averaged.

Staff argued that PTI and others assume an environment in which there are no regulatory policies discouraging cherry picking or cream skimming, and in which UNE rates are averaged. However, according to Staff these assumptions may not be borne out by the facts. Market structure policies are still undergoing development (in other proceedings), and UNE rate-setting is subject to negotiation, arbitration, and, most importantly, Commission oversight.

Staff also noted that there are potentially negative consequences to making deaveraging an entitlement. AT&T Alascom noted that deaveraging will drive up access charges in high cost

areas and discourage competitive IXC's from serving those areas. Staff contended that the rationale for deaveraging access rates applies equally to deaveraging local rates. Staff concluded that a policy endorsement of deaveraging in this proceeding could have consequences that go far beyond the scope of the evidence before the Commission.

Staff proposed that ILECs be given the opportunity to petition for deaveraged NTS-related access rates. Staff stated that the burden of proof in such a proceeding should rest with the ILEC, which should demonstrate that substantial cost differences exist, and that deaveraged access rates are an appropriate regulatory response to those differences. Staff also proposed that no permission to deaverage be granted by the Commission absent an affirmative showing of net public benefit.

Finally, Staff noted that because of the complexity of the factual issues associated with a petition to deaverage, it may be necessary for the Commission to allow deaveraging to go into effect on an interim and refundable basis pending adjudication of permanent rates. Staff stated that if the Commission determined that interim and refundable rates are not an acceptable policy option in the case of deaveraging, then the Commission should begin investigating the potential for using a forward-looking economic cost model to accurately detect and estimate differences in costs between and within individual wire centers.

In its October 7, 1998, supplemental comments, the Rural Coalition strongly opposed the net public benefit standard proposed by Staff. The Rural coalition argued that if an LEC must petition the Commission to deaverage access charges, then the Commission should judge the petition not on Staff's proposed "net public benefit" standard but on more general and well-established standards such as fairness and nondiscrimination.

At the Special Public Meeting of October 14 and 16, 1998, Staff withdrew its recommendation for a "net public benefit" standard and recommended that the Commission adopt a "public interest" standard in its place.

Decision: At its October 14 and 16, 1998, Special Public Meeting the Commission adopted Staff's recommendation regarding deaveraging, subject to the amendment which replaces the "net public benefit" standard with a "public interest" standard. The Commission believes that Staff crafted a reasonable middle ground between those that would prohibit deaveraging altogether and those that would making deaveraging an entitlement.

Therefore, the Commission will address requests to deaverage on a case-by-case basis with the burden on the petitioning LEC to show that its request is in the public interest. The relevant regulatory provisions are included in the Manual at §104(q) and (r) (see changes to §104 in previous discussion: NTS Cost Recovery for Nonpooling ILECs and CLECs).

The Commission believes that the use of interim and refundable rates for purposes of deaveraging is an acceptable policy option for deaveraging and, therefore, will not at this time direct Staff to begin investigating the potential for using a forward-looking economic cost model to accurately detect and estimate differences in costs between and within individual wire centers.

*Filing Exemptions for Nonpooling LECs*

Although GCI agreed with the intended changes to 3 AAC 48.275(b), it argued that the modification does not achieve its intended purpose, which is to allow rate reductions without cost support. GCI proposed the following:

[R]ather than adding subsections (4) and (5) to 275(b), the Commission should instead add a new subsection 275(d) stating: 'Subsection (a) of this section does not apply to filings for the development and support of access charges. Filings for the development and support of access charges must be in accordance with the . . . Manual.'

The last sentence of Section 116 of the Manual should then be amended to provide that 'A tariff revision to increase access charge rates above the ceilings established in accordance with Sections 104-117 must include all of the supporting information set out in Sections 701 and 702 of the Manual.' (GCI Comments, pp. 6-7.)

Decision: The Commission agrees with GCI's analysis and recommendation. The Commission will adopt the modifications as proposed by GCI.

### *Modifying Rates*

Background: In Order No. 3, the Commission proposed to permit a nonpooling LEC to "modify access charges, offer new or repackaged services, or implement special contracts for access service without approval of the Commission" (§116 of the Manual). In proposing the CASBB, Staff stated that it believed that the offering of new or repackaged services, or implementation of special contracts, should not be permitted:

Changes to the rate design or the targeting of lower rates to particular IXCs would fundamentally alter the CASBB system and perhaps render it unduly discriminatory or unworkable. (Second Staff report, pp. 47-48.)

Decision: The Commission concurs with Staff's reasoning. Section 116 of the Manual, as proposed in Order No. 3, will be amended to delete language which permits LECs to offer new or repackaged services or to implement special contracts.

### *Definition of ILEC and CLEC*

Background: GCI stated that definitions for the terms "ILEC" and "CLEC" should be added to the Manual. Staff agreed with GCI's suggestion and proposed the following definitions, subjection to DOL review.

*Incumbent Local Exchange Carrier* ("ILEC") means the telephone utility, or its successor, certificated to provide local exchange telephone service within its service area as of February 8, 1996, or a local

exchange carrier designated by the Commission as the incumbent.

*Competitive Local Exchange Carrier* ("CLEC") means a carrier, other than the ILEC, which is certificated by the Commission to provide local exchange service in the ILEC's service area.

Decision: The Commission concurs with Staff's proposed definitions and adopts them, subject to DOL review.

*Definition of Telephone Company*

Background: AT&T Alascom stated:

The proposed definition (which is part of the current manual) says at 801(ff) that 'a "telephone company" means a carrier that provides local exchange service as defined in 3 AAC 48.820(19).' However, 3 AAC 48.820(19) defines a 'local exchange telephone utility,' as do AS 42.05.890(1) and 3 AAC 52.399 ('local exchange carrier'). The effect of the proposed definition is to define 'telephone company' as a local exchange company. This is not appropriate. 'Telephone company' is used elsewhere (e.g., AS 42.05.860) to mean either local or long distance companies. The term 'telephone company' should be changed to 'local exchange company' or a similar phrase throughout the Access Charge Manual. (AT&T Comments, pp. 9-10.)

Decision: The Commission agrees with AT&T Alascom that the term "telephone company" is probably not the best term. However, the Commission also believes that for now the term is adequate and will cause no harm. In the interest of time, the Commission will defer this issue to a later date.

*Retention of §304(c) of the Manual*

Background: UUI stated in its comments:

This section addresses the investment in {subscriber} lines terminating in public telephones which is assigned to the carrier common line element. Contrary to the Staff's suggestion that this section be deleted, this section is appropriately retained. See APUC U-96-67(7) and U-97-20(1) dated January 21, 1997 which states '[t]o comply with the FCC payphone orders, the Commission will require LECs to remove the costs associated with payphones from intrastate access charge rates. To meet this end, each LEC shall revise its approved 1997 access charge revenue requirement to exclude payphone costs. (UUI Comments, p. 4.)

Staff agreed with UUI that §304(c) should be retained.

Decision: The Commission agrees with UUI and Staff and will retain this section of the Manual.

#### **UNIVERSAL SERVICE REFORM**

##### *Alaska Universal Service Fund (AUSF): Governance*

Background: As proposed in Order No. 3, 3 AAC 53.310(b)(3) requires that the administrator "not be an affiliate of any provider of telecommunications services." All commentors agree that, as drafted, this exclusion applies to AECA, the current administrator of the current access charge pools.

In the comments filed in response to Order No. 3, the ILECs strongly opposed rules that would categorically prohibit AECA from being selected the administrator. AT&T and GCI tended to support the Commission's proposed conflict of interest rules.

The Joint Consensus filed on August 24, 1998, produced the following proposal:

The AUSF is to be governed for one year by a newly-formed nonprofit corporation contracting with AECA for operational services. The governing board, which should not be automatically terminated in one year, is to have seven members appointed by the Commission: two nominated by ILECs, two by IXC's not affiliated with ILECs, one by CLECs, one by IXC's affiliated with ILECs, and one by other telecom providers. Actions by the board would require five affirmative votes under a charter to be submitted by the Parties by October 1, 1998. The contract with AECA would parallel the existing ATU access charge contract, with services, under board direction, provided at cost. Unless the Parties agree on continuance by July 1, 1999, AUSF governance would revert directly to the Commission.

In Staff's second report, Staff continued to support the Commission's proposed conflict-of-interest provisions, arguing that the administrator should be responsible and accountable to the Commission to the greatest extent possible.

Decision: The Commission believes that it should have as much flexibility as possible in selecting an administrator of the AUSF. For that reason, the Commission has determined to eliminate the administrator criteria from its regulations that would prohibit an individual or organization from serving as administrator based upon the existence of a financial conflict of interest and eliminate the requirement that the administrator be selected through competitive bid.

In principle, the Commission has no objection to the AUSF governance provisions in the Joint Consensus. Modification of the Commission's proposed universal service rules, as discussed above, will remove any obstacle to selection of an industry board

as proposed in the Joint Consensus. However, the Commission does not propose to select the actual administrator in this proceeding. Rather the Commission will limit this proceeding to adoption of rules. Selection of the actual administrator will be addressed in a separate proceeding (Docket U-98-161) that is opened concurrently with this Order for that purpose.

Under the rules that the Commission is adopting in this Order, it is the Commission intent that the administrator of the AUSF will serve at the Commission's discretion. Because the administrator can be removed by the Commission at any time, the Commission does not share Staff's concern, at this time, that an administrator with financial ties to the telecommunications industry may not be responsive or accountable to the Commission. Accordingly, the Commission adopts the following amendments to 3 AAC 53.310:

**3 AAC 53.310. SELECTION OF ADMINISTRATOR.** (a)  
The commission will select[, THROUGH COMPETITIVE BID,]  
an administrator of the Alaska Universal Service Fund.

(b) The administrator must

(1) operate the fund in a [BE] neutral and impartial manner;  
(2) have the skills to bill, collect, and distribute large financial sums on a monthly basis;

[(3) NOT BE AN AFFILIATE OF ANY PROVIDER OF TELECOMMUNICATIONS SERVICES; AND

(4) NOT ISSUE A MAJORITY OF ITS DEBT TO, NOR DERIVE A MAJORITY OF ITS REVENUES FROM, ANY PROVIDER

OF TELECOMMUNICATIONS SERVICES. THIS PROHIBITION APPLIES TO ANY AFFILIATES OF THE ADMINISTRATOR.]

(c) The administrator serves at the Commission's discretion. [IF THE ADMINISTRATOR HAS A BOARD OF DIRECTORS, ITS MEMBERS SHALL NOT HAVE FINANCIAL INTERESTS IN PARTIES THAT CONTRIBUTE TO OR RECEIVE SUPPORT FROM THE UNIVERSAL SERVICE SUPPORT PROGRAMS. AN INDIVIDUAL HAS A FINANCIAL INTEREST IN Parties THAT CONTRIBUTE TO OR RECEIVE SUPPORT FROM THE UNIVERSAL SERVICE SUPPORT PROGRAMS IF HE OR SHE IS AN EMPLOYEE OF A TELECOMMUNICATIONS CARRIER OPERATING IN ALASKA OR A RECIPIENT OF UNIVERSAL SERVICE SUPPORT PROGRAMS FUNDS, OWNS EQUITY INTERESTS IN BONDS OR EQUITY INSTRUMENTS ISSUED BY ANY TELECOMMUNICATIONS CARRIER OPERATING IN ALASKA, OR OWNS MUTUAL FUNDS THAT SPECIALIZE IN THE ALASKA TELECOMMUNICATIONS INDUSTRY. A MUTUAL FUND SPECIALIZES IN THE ALASKA TELECOMMUNICATIONS INDUSTRY IF IT INVESTS MORE THAN 50 PERCENT OF ITS MONEY IN STOCKS AND BONDS OF TELECOMMUNICATIONS CARRIERS OPERATING IN ALASKA. AN INDIVIDUAL'S OWNERSHIP INTEREST IN Parties THAT CONTRIBUTE TO OR RECEIVE SUPPORT FROM THE UNIVERSAL SERVICE SUPPORT PROGRAMS IS *DE MINIMIS* IF IN THE AGGREGATE THE INDIVIDUAL, SPOUSE, AND MINOR CHILDREN'S IMPERMISSIBLE INTERESTS DO NOT EXCEED \$1,000.]

(d) THE ADMINISTRATOR CHOSEN BY THE COMMITTEE SHALL BEGIN ADMINISTERING THE SUPPORT PROGRAMS WITHIN THREE MONTHS OF ITS APPOINTMENT. THE ADMINISTRATOR'S PERFORMANCE SHALL BE REVIEWED BY THE COMMISSION AFTER TWO YEARS. THE ADMINISTRATOR SHALL SERVE AN INITIAL TERM OF FIVE YEARS. AT ANY TIME PRIOR TO NINE MONTHS BEFORE THE END OF THE ADMINISTRATOR'S FIVE-YEAR TERM, THE COMMISSION MAY REAPPOINT THE ADMINISTRATOR FOR ANOTHER TERM OF NOT MORE THAN FIVE YEARS. OTHERWISE, NINE MONTHS BEFORE THE END OF THE ADMINISTRATOR'S TERM, THE COMMISSION WILL ISSUE A REQUEST FOR PROPOSAL TO SELECT A THIRD-PARTY ADMINISTRATOR.]

d)[(e)] The administrator must provide a bond in the amount of three months' universal service fund revenues.

[(f) PRIOR TO THE SELECTION OF THE ADMINISTRATOR THE COMMISSION WILL, IN ITS DISCRETION, DESIGNATE A TEMPORARY ADMINISTRATOR TO PERFORM THE DUTIES OF THE

ADMINISTRATOR. THE TERM OF THE TEMPORARY ADMINISTRATOR SHALL NOT EXCEED ONE YEAR. ALL PROVISIONS IN THIS SECTION CONCERNING THE ADMINISTRATOR APPLY TO THE TEMPORARY ADMINISTRATOR EXCEPT FOR SUBSECTION (A).]

Finally, because the Commission anticipates that the likely administrator of the AUSF will be a nonprofit industry board as proposed in the Joint Consensus, it will not be necessary to establish in regulation the requirement for a technical advisory board to the administrator. Accordingly, proposed 3 AAC 53.360 is deleted.

*AUSF Administrative Costs*

Background: In Order No. 3, the Commission proposed to select the administrator through competitive bid. As noted above the Commission has allowed the flexibility to select an administrator through methods other than competitive bid. As proposed in Order No. 3, 3 AAC 53.320 links the administrator's compensation to an amount not to exceed the administrator's bid amount.

Decision: Because the administrator will not necessarily be selected through competitive bid, the conflicting portions of 3 AAC 53.320(a) which deal with compensation of the administrators costs must also be modified. The Commission will instead require that the administrator's compensation in any given year not exceed the Commission-approved budget for that year. The administrator will be required to submit a proposed budget for

Commission approval by September 1 of the year prior to the year in which the budget will be in effect.

Thus, 3 AAC 53.320(a) is revised as follows:

(a) By September 1 of each year, the administrator shall submit a proposed budget for the following year. The administrator's compensation shall not exceed the budget approved by the commission. [THE ADMINISTRATOR'S BASELINE COMPENSATION SHALL BE BASED UPON ITS CONTRACT AWARD. FOLLOWING THE CONTRACT AWARD, THE COMMISSION MAY MODIFY THE ADMINISTRATOR'S COMPENSATION TO PROVIDE FOR REASONABLE ADMINISTRATIVE COSTS RESULTING FROM NEW RESPONSIBILITIES BEING PLACED ON THE ADMINISTRATOR.]

*Support Provided Through the AUSF*

Background: In Order No. 3, the Commission proposed to include two types of universal service support in 1999: Lifeline support and support for switching equipment through Dial Equipment Minute (DEM) weighting.

The Joint Consensus commentors favored Lifeline (and Linkup) and DEM Weighting. Regarding DEM Weighting, the Joint Consensus stated:

The Parties request the Commission transfer the collection of DEM weighting from the access charge system to the AUSF. Certain of the Parties, however, reserve the right to argue that a portion of the DEM weighting as currently calculated is not an implicit subsidy which should be transferred to the AUSF.

Decision: The Commission has determined that state support for Lifeline and DEM weighting are necessary in 1999 and that the AUSF will be used to support both.

Lifeline and Linkup are both federal universal service programs and are sometimes referred to in the comments without distinction. Lifeline subsidizes the monthly rate of low income customers. Linkup subsidizes the one time, nonrecurring charge for installation of new service. They also differ in that while additional state support for Lifeline generates an additional amount of federal support (e.g., the minimum federal support at \$5.25 per customer can be increased by \$.50 for every dollar of state contribution up to a maximum of \$10.50 in total support) the federal contribution to Linkup can be maximized without a requirement for additional state support.

Although the Commission has no explicit objection to Linkup on policy grounds, it finds that there is insufficient information in the record to provide state support for Linkup at this time. Until the Commission has information on the amount of federal support currently being provided and an analysis of the need for additional state support, the Commission will limit initial AUSF support to Lifeline and DEM weighting.

Treatment of DEM weighting will be addressed in the next section.

#### *Treatment of DEM weighting*

Background: In Order No. 3, the Commission proposed (3 AAC 48.430 (e)(2)) requiring that the implicit support from

dial equipment minutes of use (DEMs) be transferred from the access charge system to the AUSF. This provision finds general favor, as expressed in the Joint Consensus (III.B, p. 4). However, several DEM-related matters remain in dispute. Two of these pertain to DEM weighting, the third to the question of double-counting of local DEM.

First, there is no consensus concerning the manner in which DEM support would be calculated and provided through a USF mechanism. The proposed regulations (Manual §106(c); 3 AAC 53.350) require that the DEM weighting for a depooled area be frozen at the level last calculated for the depooled ILEC, based on the ILEC's revenue requirement and demand. However, this approach is not supported by all entities.

According to PTI,

In the case of pooling companies, the revenue requirement will change each year and will thereby reflect changes in plant and operations levels. There should be some provision for the DEM weighting revenue requirement for nonpooling companies to change, as well.

The Rural Coalition, PTI, and UUI all propose an annual recalculation of the DEM support that would be transferred to the USF mechanism, since the underlying costs, the factors used to determine the intrastate access portion of those costs, and the number of access lines can all change over time. A company might exit the pool at a weighting factor of 2.0, but later might have

an increase or decrease in access lines that would put it into a different category for the calculation of DEM weighting.

GCI agreed with the proposed regulations that allow a depooled LEC to submit a complete revenue requirement filing to adjust rates. GCI argued that the "LEC should not be allowed to adjust DEM alone, without providing data to adjust all rates" because an abbreviated filing allows for gaming the system.

Second, several entities objected to the provisions (Manual §116(a); 3 AAC 53.350) that DEM weighting be averaged across the study area. ATA, the Rural Coalition, PTI, and UUI all supported deaveraging parallel to what they advocate for NTS cost recovery. DEM support would be deaveraged on a per-line basis. PTI stated that if DEM support is distributed on an aggregated rather than per-line basis, the level of support may become diluted. This rationale stems from the implication in the proposed regulations that the amount of the DEM support is frozen; a nonpooling company's support will decrease each time a competing nonpooling company adds a line.

Also, PTI reasoned that a large portion of the support must flow towards recovery of serving high-cost customers; this may not occur unless the support is deaveraged.

Failure to deaverage the per line DEM weighting support would risk mistargeting of the support . . . lower cost lines will receive proportionately more support than they need while higher cost lines would receive less support than they need.

PTI recommended that the Commission at least change the denominator in the proportionate calculation (3 AAC 53.350 (b)) to residential and single-line business lines if the Commission does not distribute DEM support on a per-line basis. The justification for this proposal is that "a new entrant could not syphon off a major portion of the DEM weighting support by merely taking the multi-line business customers." (PTI Comments, p. 9.)

The Rural Coalition proposes that an ILEC be allowed to deaverage its DEM weighting support in the same proportion as it deaverages its local loop costs. The Rural Coalition argued that in the absence of deaveraging and in the presence of subsidies that are portable to CLECs, CLECs may target customers with below-average costs and receive an average subsidy; however, ILECs, as carriers of last resort, would have to serve higher-than-average cost customers and receive only an average subsidy.

GCI opposed any deaveraging of DEM, especially by loop, arguing that DEM weighting is a support mechanism for switching costs of small LECs and has nothing to do with loop costs.

Finally, 3 AAC 48.430(e)(2) states that the calculation of the implicit subsidy is the difference between weighted state toll DEM and state toll DEM. According to UUI, the state DEM calculation requires digital offices to employ an obsolete methodology developed years ago for step-by-step nondigital switches that employed separate switching components to originate

and terminate a local call, thereby creating the need to double-count local minutes when assigning costs of that office. However, modern digital switches use a separate central processing unit that switches local and toll calls alike; thus eliminating the need to double-count local MOU. UUI argued that under today's technology, this double-counting creates an implicit subsidy for IXCs, since toll minutes are given less weight than local minutes. UUI recommends elimination of this double counting at the same time the DEM weighting support is shifted to the AUSF, thereby reducing the size of the AUSF. ATU expressed similar concerns that double counting causes all telecommunications providers to subsidize toll access purchasers.

GCI opposed this suggestion stating that UUI has not proven that DEM double counts and that any adoption of state switched MOU would require a review of the existing weighting factors. GCI opposed UUI's proposed mixture of an allocation to USF based on switched MOU while a total allocation to intrastate toll and USF is based on DEM. GCI argued that this approach would leave a portion of the state allocation on a different basis from that recently retained by the FCC.

Staff recommended in its Second Report that the Commission postpone deciding the DEM weighting support issue discussed above until more evidence can be obtained and analyzed. Staff also questioned whether intrastate DEM weighting support,

for some of the LECs which will receive it in 1999, is necessary for preserving universal service.

Decision: The Commission has determined that it will include DEM weighting support in the AUSF for 1999. The Commission has also determined that it will not amend its separations rules at this time to eliminate the double counting of local minutes. The double counting issue, however, will be addressed in a later phase of this proceeding or in a docket to investigate the need to reform its separations rules.

The Commission also will not address at this time the mechanics of how, and whether, DEM weighting should be deaveraged. This issue can be addressed in the next phase of this proceeding. If competitive market entry occurs in areas served by ILECs receiving intrastate DEM support prior to the time the Commission adopts rules, the Commission will address the issue through case by case adjudication.

Finally, the Commission declines, at this time, to amend its proposed rules to require an annual recalculation of the DEM support that will be transferred to the AUSF. This issue, like the others, can be revisited in the next phase of this proceeding.

*Changes to 3 AAC 48.430(e)(4) and (5) [DEM Weighting Support and Jurisdictional Separations]*

Background: Several commentors have suggested that proposed changes to jurisdictional separations regarding DEM weighting at 3 AAC 48.430(e)(4) and (5) be further modified to eliminate broad references to universal service, and be replaced with explicit language referencing specific sources of support. Summit has also suggested that the formula in paragraph (4) be clarified with the use of the proper mathematical notation.

Decision: The Commission concurs with these commentors and adopts the following technical clarifications to 3 AAC 48.430(e)(4) and (5) as proposed in Order No. 3:

(4) Notwithstanding (1) - (3) of this subsection, the allocation factor to intrastate toll is limited to a level that brings the total allocation to interstate toll plus the federal switching support portion of federal universal service plus intrastate toll plus the DEM weighting support portion of state universal service to the percent of Category 3 investment determined for each local exchange company by the following formula:

$$.85 + .05 \times \frac{[(\text{THE NUMBER OF EXCHANGES WITH TOLL FREE CALLING TO LESS THAN 100 ACCESS LINES})]}{(\text{TOTAL NUMBER OF EXCHANGES})}]$$
$$.85 + (.05 \times (A \div B))$$

where

A equals the number of exchanges with toll free calling to less than 100 access lines, and

B equals the total number of exchanges.

(5) Any reductions to intrastate factors resulting from application of (3) and (4) of this subsection shall be applied first to reduce the DEM weighting

support portion of state universal service [UNIVERSAL SERVICE FACTOR], with any residual used to reduce the intrastate toll DEM factor.

*Funding the AUSF*

Background: In Order No. 3, the Commission proposed that utilities that pay into the AUSF would be identified from the FCC list, as set forth in proposed 3 AAC 53.340, and that those utilities would be assessed on the basis of their intrastate end-user revenues. The consensus of the commentors supported the Commission's proposal.

In addition, the DOL raised the issue of whether the original version of these regulations was authorized by AS 42.05.840. The original version did not make it clear that the Commission is using its established authority to make rates under AS 42.05.431 to charge each telecommunications utility that uses the public communications network the universal service surcharge for the cost of supporting the network.

Decision: The Commission affirms its decision as proposed in Order No. 3, that utilities that pay into the AUSF would be identified from the FCC list, as set forth in proposed 3 AAC.340, and that those utilities would be assessed on the basis of their intrastate end-user revenues.<sup>13</sup>

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<sup>13</sup>The list of entities required to pay a universal service surcharge into the AUSF includes entities not currently subject to regulation by the Commission (e.g., telex, telegraph,  
(continued...)

The Commission has also revised the regulations to reflect the use of the Commission's ratemaking authority to impose a surcharge for the support of universal service. The more appropriate term "universal service surcharge" has been used to describe the rate paid by each telecommunication utility for the benefits received through the maintenance of the entire public telecommunications network. Every telecommunications utility benefits from the availability of an efficient affordable public network. A definition of "universal service surcharge" has been added to establish the surcharge as a rate. Additional language has been added consistent with the Commission's intent to characterize contributions as charges and compensation for the maintenance of the public telecommunications network under AS 42.05.321 rather than assessments to raise revenues.

*Funding Exemption*

Background: In Order No. 3, the Commission proposed that if a telecommunications service utility's payment to the AUSF

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<sup>13</sup>(...continued)  
satellite). The Department of Law has advised the Commission that the categories of providers identified at proposed 3 AAC 53.340(a) fall within the definition of "telecommunications" in AS 42.05.990(8).

in any given year is less than \$100, that utility will not be required to submit a payment or the AUSF Worksheet for that year. In its comments GCI argued that exemption should not apply if the utility receives payments from the fund.

Decision: The Commission agrees with GCI's position and adopts the following change to the last sentence of proposed 3 AAC 53.340(b):

If a utility's payments [CONTRIBUTOR'S CONTRIBUTION] to the AUSF in any given year are [IS] less than \$100, that utility [CONTRIBUTOR] will not be required to submit a payment [CONTRIBUTION] or the AUSF Worksheet for that year unless the utility has received payments from the AUSF in that year.

#### **IMPLEMENTATION ISSUES**

In order for access charge and universal service reform to take effect on January 1, 1999, additional planning and decisionmaking will have to take place prior to that time. In order that this transition takes place as smoothly as possible, the Commission will require filings and direct Staff to work with industry groups in several areas, as discussed below.

#### *ATU and GCI Tariff Filing Requirement for NTS Rate Elements*

ATU and GCI-LEC are directed to file, by December 1, 1998, tariff revisions to adopt NTS access charge rate elements. In this instance, the Commission will review the proposed filings

on a 30-day cycle rather than the normal 45-day cycle in order for the revisions to be in place by January 1, 1999.

Following the issuance of this Order, ATU, GCI, AT&T Alascom, any other interested LECS and IXCs, and Staff are directed to meet and discuss any issues that may require resolution prior to the December 1, 1998, filing deadline. For example, issues that might require clarification include: the revenue requirement and demand that will be used to set the NTS rate cap; the uniform method that will be used to count access lines; or the exchange of information between carriers required for billing of access charges. Any issues that require clarification should be brought to the Commission's attention as soon as possible.

#### *Selection of Fund Administrator*

Concurrently with this Order, the Commission is opening Docket U-98-168 for the purpose of selecting an administrator of the AUSF and addressing any other issues involving implementation of the AUSF. All participants to the Joint Consensus Regarding Certain Issues, filed August 24, 1998, are designated parties to this Docket. Within two weeks of the issuance of this Order, those parties are directed to submit a joint plan of action that will permit the AUSF to be operational by January 1, 1999.

*AECA Filing*

By December 1, 1998, AECA is directed to file a tariff revision to incorporate any changes to its tariff necessitated by the changes to regulations and the Manual adopted in this Order. If necessary, AECA is directed to sponsor a workshop for its members, customers, and Staff to address any unresolved issues or any issues that require Commission attention prior to AECA's filing deadline.

**ORDER**

THE COMMISSION FURTHER ORDERS:

1. As more fully discussed in the body of this Order, the changes to the Commission's regulations attached hereto as Appendix A are adopted.

2. As more fully discussed in the body of this Order, the changes to the Alaska Intrastate Interexchange Access Charge Manual attached hereto as Appendix B are adopted.

3. By December 1, 1998, the Municipality of Anchorage d/b/a Anchorage Telephone Utility a/k/a ATU Telecommunications and GCI Communication Corp. d/b/a General Communication, Inc., and d/b/a GCI (local exchange operations) are directed to file tariff revisions to adopt nontraffic sensitive access charge rate elements.

4. Following the issuance of this Order, the Municipality of Anchorage d/b/a Anchorage Telephone Utility a/k/a ATU Telecommunications; GCI Communication Corp. d/b/a General Communication, Inc., and d/b/a GCI; Alascom, Inc. d/b/a AT&T Alascom, any other interested local exchange carriers and interexchange carriers, and Commission Staff are directed to meet and discuss any issues that may require resolution prior to the December 1, 1998, filing deadline established herein.

5. Docket U-98-168 is opened for the purpose of selecting an administrator of the Alaska Universal Service Fund and addressing any other issues related to the implementation of the Alaska Universal Service Fund. All participants to the Joint Consensus Regarding Certain Issues, filed August 24, 1998, are designated parties to this Docket. Those parties are directed to submit a joint plan of action within two weeks of the issue date of this order that will permit the AUSF to be operational by January 1, 1999.

6. By December 1, 1998, the Alaska Exchange Carriers Association, Inc., is directed to file a tariff revision to incorporate any changes to its tariff necessitated by the changes to regulations and the Alaska Intrastate Interexchange Access Charge Manual adopted in this Order. If necessary, the Alaska Exchange Carriers Association, Inc., is directed to sponsor a workshop for its members, customers and Commission Staff to

address any unresolved issues or any issues that require Commission attention prior to the filing deadline established by this paragraph.

7. Further issues to be addressed in this proceeding will be identified in a subsequent order.

DATED AND EFFECTIVE at Anchorage, Alaska, this 23rd day of November, 1998.

BY DIRECTION OF THE COMMISSION

( S E A L )

**Carrier-Specific Bulk Bill**  
**Example: GCI-LEC in Sitka**

**Competition  
Triggers Exit**



**PTI - Sitka Service Area**

**Set Overall Rate Cap:**

Overall Rate Cap =  $\frac{\$ 1,237,688}{12,178 \text{ lines}}$

Overall Rate Cap = \$ 8.47 /line/month



**Allocate \$8.47 to Originating and Terminating Categories:**

GCI-LEC allocates \$8.47 to originating and terminating switched access:

Originating portion = \$2

Terminating portion =  $\$8.47 - \$2 = \$6.47$



**GCI-LEC  
Originating Bulk Bill**

OrigBB =  $\$2 * 2,000 \text{ lines}$

OrigBB = \$4,000

(Computed monthly)



**GCI-LEC  
Terminating Bulk Bill**

TermBB =  $\$6.47 * 2,000 \text{ lines}$

TermBB = \$12,940

(Computed monthly)



**Assess to IXCs:**

With 99% of GCI-LEC's originating switched access minutes, GCI-IXC would pay:

$(.99) * \$4,000 = \$3,960$

And with 1%, AT&T would pay:

$(.01) * \$4,000 = \$40$



**Assess to IXCs:**

With 40% of GCI-LEC's terminating switched access minutes, GCI-IXC would pay:

$(.4) * \$12,940 = \$5,176$

And with 60%, AT&T would pay:

$(.6) * \$12,940 = \$7,764$

3 AAC 48.275(b) is amended<sup>1</sup> by adding the following subsection:

(d) Subsection (a) of this section does not apply to filings for the development and support of access charges. Filings for the development and support of access charges must be in accordance with the Alaska Intrastate Interexchange Access Charge Manual. (Eff. 9/12/75, Register 55; am 6/8/78, Register 66; am 6/29/84, Register 90; am \_\_\_/\_\_\_/\_\_\_, Register \_\_\_/\_\_\_/\_\_\_)

Authority:	AS 42.05.141	AS 42.05.411	AS 42.06.350
	AS 42.05.151	AS 42.05.431	AS 42.06.370
	AS 42.05.361	AS 42.05.441	AS 42.06.390
	AS 42.05.391	AS 42.06.140(a)	

3 AAC 48.430(b), (d), and (e) are amended and a new (l) is added, to read:

**3 AAC 48.430. JURISDICTIONAL SEPARATIONS.** (a) Except as set out in (b) - (j) of this section, the Separations Manual (standard procedure for separating telephone property costs, revenues, expenses, taxes, and reserves) as set out in Part 36 of the Federal Communications Commission regulations (47 C.F.R. 36) and amended through August 8, 1988, is adopted by reference. The

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<sup>1</sup>In this Appendix, changes to the regulations are illustrated in legislative drafting style, i.e., additions are underlined, deletions are [IN ALL CAPITAL LETTERS AND ENCLOSED IN BRACKETS], and the new article is set out without underlining.

property costs, revenues, expenses, taxes, and reserves of each telephone utility will be allocated in accordance with the principles and procedures in Part 36, except as set out in (b) - (j) of this section, for use by the commission in establishing rates for telephone utilities.

(b) Except as set out in (e) and (f) of this section, "state toll" is substituted for "state" throughout Part 36.

(c) Sections 36.1(b), 36.2(b)(3), and (e), 36.155(a), 36.331(b), and 37.377(a)(7) are modified by substituting "state toll and local" for "state and interstate" and "interstate or state."

(d) 47 C.F.R. 36.2(b)(3)(iv), 36.126(c)(3), and 36.154(c) - (f) are not adopted. The following rule applies [RULES APPLY]:

(1) [BEGINNING JANUARY 1, 1994,] Category 4.13 and Category 1.3 costs, as defined by 47 C.F.R. 36.126(a) and (b) and 36.154(a), will be apportioned by an allocation factor of .20.

(2) Repealed \_\_\_/\_\_\_/\_\_\_.

(3) Repealed \_\_\_/\_\_\_/\_\_\_.

(4) Repealed \_\_\_/ /\_\_\_.

(5) Repealed \_\_\_/\_\_\_/\_\_\_.

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

(1) Beginning January 1, 1999 [1994], Category 3 investment, as defined by 47 C.F.R. 36.125(a), is apportioned to the state toll jurisdiction on the basis of the state toll dial equipment minute of use (DEM) factor. The state toll DEM factor is the ratio of the state toll DEM to total DEM [AN ADJUSTED DIAL EQUIPMENT MINUTES OF USE (DEM) ALLOCATOR THAT EQUALS RELATIVE DEM, I.E., THE MINUTES OF HOLDING TIME OF THE ORIGINATING AND TERMINATING LOCAL SWITCHING EQUIPMENT, AS "HOLDING TIME" IS DEFINED IN THE GLOSSARY OF 47 C.F.R. 36, TIMES A WEIGHTING FACTOR SET OUT IN (5) OF THIS SUBSECTION].

(2) Beginning January 1, 1999, Category 3 investment, as defined by 47 C.F.R. 36.125(a), is apportioned to the AUSF on the basis of weighted state toll DEM minus state toll DEM. Weighted state toll DEM is equal to state toll DEM times a weighting factor set out in (3) of this subsection. [DURING THE 1990 - 1993 PERIOD, CATEGORY 3 INVESTMENT IS APPORTIONED BY THE APPLICATION OF AN INTRASTATE ALLOCATION FACTOR THAT IS COMPUTED BY ADDING THE FOLLOWING TWO ELEMENTS FOR THE APPROPRIATE TRANSITION YEAR: THE A COMPONENT TIMES THE COMPOSITE ALLOCATOR PLUS THE B

COMPONENT TIMES THE ADJUSTED DEM ALLOCATOR, AS SPECIFIED IN (3) AND (4) OF THIS SUBSECTION. THE COMPOSITE ALLOCATOR IS EQUAL TO THE INTRASTATE ALLOCATION FACTOR APPLIED TO CATEGORY 3 INVESTMENT IN 1987. THE ADJUSTED DEM ALLOCATOR IS COMPUTED AS DESCRIBED IN (1) OF THIS SUBSECTION.

(3) THE "A COMPONENT" FOR EACH OF THE FOUR YEARS IS AS FOLLOWS:

YEAR	"A COMPONENT"
1990	.75
1991	.50
1992	.25
1993	.00

(4) THE "B COMPONENT" FOR EACH OF THE FOUR YEARS IS AS FOLLOWS:

YEAR	"B COMPONENT"
1990	.25
1991	.50
1992	.75
1993	1.00]

(3) [5] The applicable weighting factor is as follows:

NUMBER OF ACCESS LINES IN LOCAL EXCHANGE COMPANY	WEIGHTING FACTOR
0-10,000	3.0

10,001-20,000	2.5
20,001-50,000	2.0
50,001-or above	1.0

(4) [6] Notwithstanding (1) - (3)[5] of this subsection, the allocation factor to intrastate toll and universal service is limited to a level that brings the total allocation to interstate toll plus federal switching support portion of universal service plus intrastate toll plus the DEM weighting support portion state universal service to the percent of Category 3 investment determined for each local exchange company by the following formula:

$$.85 + .05 \cdot \frac{[(\text{THE NUMBER OF EXCHANGES WITH TOLL FREE CALLING TO LESS THAN 100 ACCESS LINES})]}{(\text{TOTAL NUMBER OF EXCHANGES})}]$$

$$.85 + (.05 \times (A \div B))$$

A = the number of exchanges with toll free calling to less than 100 access lines

B = the total number of exchanges

(5) Any reductions to intrastate factors resulting from application of (3) and (4) of this subsection shall be applied first to reduce the DEM weighting support portion of state

universal service factor, with any residual used to reduce the intrastate toll DEM factor.

(f) Sections 36.142(b) and 36.377(a)(I)(i), (a)(I)(iii), (a)(2)(v), and (a)(3)(vi) are modified by substituting "local" or "local exchange" for "state" in the phrases "state jurisdiction" and "state operations."

(g) Section 36.154 is modified by adding "Subcategory 1.4, local private lines," in section 36.154(a) and including subcategory 1.4 in the direct assignments provided in section 36.154(b).

(h) Section 36.181(a) is modified by substituting "state toll operation" for "interstate operation."

(i) Section 36.377(a)(1)(I), (a)(2)(v), and (a)(3)(vi) is modified by adding "local private line expense" to the assignments provided in these sections.

(j) Section 36.377(a)(7) is modified by substituting "revenues of" for "revenues deposited in."

(k) Subparts F and G of Part 36, sections 36.601 - 36.741, are not adopted.

(l) Unless the context indicates otherwise, in this section

(1) "Dial equipment minutes of use" or "DEM" means the minutes of holding time of the originating and terminating local switching equipment; and

(2) "Holding Time" means the time in which an item of telephone plant is in actual use either by a customer or an operator. For example, on a completed telephone call, holding time includes conversation time as well as other time in use. At local dial offices any measured minutes which result from other than customer attempts to place calls (as evidenced by the dialing of at least one digit) are not treated as holding time. (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 \_\_/\_\_/\_\_, Register \_\_\_\_)

Authority: AS 42.05.141 AS 42.05.151(a) AS 42.05.401(a)

Editor's Notes: A copy of the Separations Manual, 47 C.F.R. 36, as amended through August, 1988, may be obtained by writing the Federal Communications Commission, 1919 "M" Street, N.W., Washington, D.C. 20554. A copy is also available for inspection at the offices of the Alaska Public Utilities Commission as specified in 3 AAC 48.010(a).

Under AS 44.62.125(b)(6) and AS 01.05.031(b)(7), the regulations attorney added subsec. (k) to 3 AAC 48.430 as of Register 112, January 1990. The APUC had adopted that subsection, but it was inadvertently omitted from the set of 3 AAC 48.430 amendments that was filed on March 10, 1989.

**3 AAC 48.440 is amended to read:**

**3 AAC 48.440. RATES FOR INTEREXCHANGE ACCESS.** Access charges shall be assessed for use of local exchange telephone utility facilities by the providers of intrastate interexchange telecommunications services. Those charges must be determined, assessed, and collected, and revenues from those charges must be distributed, in accordance with the commission's rules as set out in the Alaska Intrastate Interexchange Access Charge Manual, dated January 1, 1999 [OCTOBER 28, 1992]. That manual is available at the offices of the Alaska Public Utilities Commission as specified in 3 AAC 48.010(a). (Eff. 2/16/90, Register 113; am 4/7/93,

Register 126; am \_\_/\_\_/\_\_), Register \_\_)

Authority:	AS 42.05.141	AS 42.05.321	AS 42.05.381
	AS 42.05.151	AS 42.05.361	AS 42.05.401
	AS 42.05.311	AS 42.05.371	AS 42.05.830

3 AAC 48.820 is amended by adding the following paragraphs:

(47) "nonpooling company" means a company that is not a participant in the access charge pool established by the Alaska Intrastate Interexchange Access Charge Manual;

(48) "pooling company" means a company that is a participant in the access charge pool established by the Alaska Intrastate Interexchange Access Charge Manual. (Eff. 1/13/73, Register 44; am 1/19/80, Register 73; am 6/29/84, Register 90-. am 6/27/92,

Register 122; am 7/12/92, Register 123; Eff. \_\_/\_\_/\_\_; Register  
\_\_/\_\_/\_\_)

Authority:	AS 42.05.141	AS 42.05.411	AS 42.06.350
	AS 42.05.151	AS 42.05.431	AS 42.06.370
	AS 42.05.361	AS 42.05.441	AS 42.06.390
	AS 42.05.391	AS 42.06.140	

**Publisher's Note:** In view of the addition of the following sections, Article 2 will need to be revised and existing Articles 2-6 will need to be renumbered as 3-7.

3 AAC 53 is amended by adding new sections to read:

**Article 2. UNIVERSAL SERVICE FUND.**

**Section**

- 300 Applicability, finding, purpose, and waiver.
- 310 Selection of administrator
- 320 Administrative costs
- 330 Reports, audits, and separation of funds
- 340 Universal service surcharge
- 350 Distribution of AUSF
- 399 Definitions

**3 AAC 53.300. APPLICABILITY, FINDING, PURPOSE, AND WAIVER.**

(a) The provisions of 3 AAC 53.300 - 3 AAC 53.399 apply to all public utilities that provide intrastate telecommunications service in Alaska.

(b) The purpose of 3 AAC 53.300 - 3 AAC 53.399 is

- (1) to promote the efficiency, availability and affordability of universal telephone service in

Alaska through the establishment of the Alaska Universal Service Fund (AUSF);

(2) to recalculate the rates and charges of intrastate telecommunications utilities so as to make explicit any subsidies which have previously been implicit; and

(3) to implement state participation in federal programs for the support of universal service under 47 USC Section 254 of the Federal Communications Act, as amended by the Telecommunications Act of 1996.

(c) The purpose of 3 AAC 53.300-3 AAC 53.399 is not to raise revenue for the maintenance of any government service offered to the general public.

(d) For good cause shown, the commission will, in its discretion, waive the application of all or any portion of 3 AAC 53.300 - 3 AAC 53.399 to a public utility providing intrastate

telecommunications service and establish appropriate criteria for that public utility. (Eff. \_\_/\_\_/\_\_, Register \_\_)

Authority:	AS 42.05.141	AS 42.05.431	AS 42.05.800
	AS 42.05.145	AS 42.05.711	AS 42.05.840
	AS 42.05.151		

**3 AAC 53.310. SELECTION OF ADMINISTRATOR.** (a) The commission will select an administrator of the Alaska Universal Service Fund.

(b) The administrator must

(1) operate the fund in a neutral and impartial manner;

(2) have the skills to bill, collect, and distribute large financial sums on a monthly basis;

(c) The administrator serves at the commission's discretion.

(e) The administrator must provide a bond in the amount of three months' universal service fund payments.

(Eff. \_\_/\_\_/\_\_, Register \_\_)

Authority:	AS 42.05.141	AS 42.05.431	AS 42.05.800
	AS 42.05.145	AS 42.05.711	AS 42.05.840
	AS 42.05.151		

**3 AAC 53.320. ADMINISTRATIVE COSTS.** (a) By September 1 of each year, the administrator shall submit a proposed budget for

the following year. The administrator's compensation shall not exceed the budget approved by the commission.

(b) Administrative costs shall be included, along with AUSF support costs, in the calculation of the surcharge factor as detailed in 3 AAC 53.340. (Eff. \_\_\_/\_\_\_/\_\_\_, Register \_\_\_)

Authority:	AS 42.05.141	AS 42.05.431	AS 42.05.800
	AS 42.05.145	AS 42.05.711	AS 42.05.840
	AS 42.05.151		

**3 AAC 53.330. REPORTS, AUDITS, AND SEPARATION OF FUNDS.**

(a) The administrator shall keep the universal service support funds separate from all other funds under the control of the administrator.

(b) The administrator shall be subject to a yearly audit by an independent accounting firm and may be subject to an additional audit by the commission, if so ordered. The administrator shall be subject to a close-out audit at the end of its term.

(c) The administrator shall report annually to the commission an itemization of monthly administrative costs that shall include all expenses, receipts, and payments associated with the administration of the AUSF and shall provide the commission full access to the data collected under the administration of the AUSF.

(d) Information based on the administrator's reports will be made public at least once a year as part of a monitoring report.

(e) The administrator shall report quarterly to the commission on the disbursement of universal service funds along with any recommended changes to the surcharge factor. The administrator shall keep separate accounts for the amounts of money collected and disbursed for universal service support authorized by the commission.

(f) The administrator shall have authority to audit any utility required to pay the universal service surcharge and any utility that has received payments from the AUSF. The administrator shall establish procedures to verify all payments into and all distributions out of the AUSF. The administrator may suspend or delay payments to a utility if that utility fails to adequately verify the amounts it claims are due to it, or if the commission directs the administrator to do so. (Eff. \_\_/\_\_/\_\_, Register \_\_)

Authority: AS 42.05.141 AS 42.05.431 AS 42.05.800  
AS 42.05.145 AS 42.05.711  
AS 42.05.840  
AS 42.05.151

**3 AAC 53.340. UNIVERSAL SERVICE SURCHARGE.** (a) A public utility that provides intrastate telecommunications service to the

public, or to those classes of users as to be effectively available to the public, for a fee shall pay a universal service surcharge to the universal service fund. For purposes of 3 AAC 53.300 - 3 AAC 53.399 intrastate telecommunications include:

- (1) cellular telephone and paging services;
- (2) mobile radio services;
- (3) operator services;
- (4) personal communications services (PCS);
- (5) access to interexchange service;
- (6) special access service;
- (7) WATS;
- (8) toll-free service;
- (9) 900 service;
- (10) message telephone service (MTS);
- (11) private line service;
- (12) telex;
- (13) telegraph;
- (14) video services;
- (15) satellite service;
- (16) resale of intrastate services; and
- (17) pay phone services.

A public utility providing open video systems (OVS), cable leased access, or direct broadcast satellite (DBS) services shall not be required to pay the universal service surcharge on the basis of revenues derived from those services.

(b) A public utility providing a service identified in (a) of this section shall provide to the administrator a verified accounting of its intrastate end user revenues. The accounting shall be submitted on a form known as the AUSF Worksheet that will be specified by order the commission. The completed AUSF Worksheet shall be submitted to the administrator twice a year. The first AUSF Worksheet shall be due March 31, of each year, containing data for the prior calendar year. The second AUSF Worksheet shall be due September 1, of each year, containing data for the six-month period from January 1 through June 30 for the current calendar year. If a utility's payments to the AUSF in any given year would be less than \$100, that utility will not be required to submit a payment or the AUSF Worksheets for that year, unless the utility has received payments from the AUSF in that year.

(c) By October 1 of each year, the administrator shall estimate the total amount of the AUSF support that will be needed

for the calendar year (including administrative expenses) for programs authorized by the commission and shall estimate the annual surcharge factor. The estimated surcharge factor shall be equal to the ratio of the total statewide AUSF requirement to the total statewide end-user revenues. The administrator shall adjust the estimated surcharge factor on a quarterly basis, as necessary, as provided for in 3 AAC 53.330(e). The surcharge factor must be approved by the commission.

(d) The administrator shall bill all intrastate telecommunications service utilities on a monthly basis.

(e) Any collections in excess of AUSF distribution requirements for any month shall be held in a low-risk interest bearing account and used for disbursements in the following month. (Eff. \_\_/\_\_/\_\_, Register \_\_)

Authority:	AS 42.05.141	AS 42.05.431	AS 42.05.800
	AS 42.05.145	AS 42.05.711	AS 42.05.840
	AS 42.05.151		

**3 AAC 53.350. DISTRIBUTION OF THE AUSF.** (a) The administrator shall distribute on a monthly basis funds authorized by the commission for

- (1) dial equipment minute (DEM) weighting and
- (2) lifeline support.

(b) The DEM weighting revenue requirement for a pooling company shall be determined by the commission as part of the annual access charge process for a pooling company. The DEM weighting revenue requirement for an eligible nonpooling company is determined at the time that the incumbent exits the pool and shall be based upon its most recent access revenue requirement. A distribution of the AUSF for DEM weighting shall be made monthly by the administrator to each qualifying company. The administrator shall distribute to a pooling company one twelfth of their DEM weighting revenue requirement each month. The administrator shall calculate and distribute the amount of DEM weighting support for a non-pooling company by distributing to each eligible carrier within a study area the proportionate share of the DEM weighting support amount for that study area based upon the carrier's percentage of reported number of access lines for that study area for that month.

(c) AUSF support for the lifeline program shall be provided in an amount sufficient to maximize the federal lifeline contribution. The administrator shall distribute each month to each eligible telecommunications carrier an amount equal to the

necessary state contribution per line times the monthly number of qualifying local lifeline customers.

(d) In the case of a fund shortage in any particular month, the administrator will distribute funds in the following priority:

(1) administrative costs;

(2) universal service support eligible in a prior month but not funded in that month;

(3) lifeline support;

(4) DEM weighting.

(Eff. \_\_/\_\_/\_\_, Register \_\_)

Authority:	AS 42.05.141	AS 42.05.431	AS 42.05.800
	AS 42.05.145	AS 42.05.711	AS 42.05.840
	AS 42.05.151		

**3 AAC 53.399. DEFINITIONS.** Unless the context indicates otherwise, in 3 AAC 53.300 - 3 AAC 53.399

(1) "AUSF" means the Alaska Universal Service Fund;

(2) "eligible telecommunications carrier" means a telecommunications utility eligible under 47 USC Section 214(e) of the Federal Communications Act, as amended by the Telecommunications Act of 1996.

(3) "lifeline" has the same meaning as set out in 47 C.F.R. §54.401 that is in effect on November 1, 1998;

(4) "nonpooling company" means a company that is not a participant in the access charge pool established by the Alaska Intrastate Access Charge Manual;

(5) "pooling company" means a company that is a participant in the access charge pool established by the Alaska Intrastate Access Charge Manual;

(6) "universal service surcharge" is a rate paid by a utility for the use of the public telecommunications network.

(Eff. \_\_/\_\_/\_\_, Register \_\_)

Authority:	AS 42.05.141	AS 42.05.431	AS 42.05.800
	AS 42.05.145	AS 42.05.711	AS 42.05.840
	AS 42.05.151		

**Editor's notes:** A copy of 47 C.F.R. §54.401, mentioned in 3 AAC 53.399(2), is available for inspection at the offices of the Alaska Public Utilities Commission as specified in 3 AAC 48.010(a).

Supplemental Joint Consensus (GCI, GTE Alaska, PTI, United, ATU, ATU-LD, Rural Coalition, and AECA)

1. The Parties request the Commission to adopt the CASBB, as proposed and described by Commission Staff in its Report of September 15, 1998, as an initial step to resolve the issue of NTS recovery for non-pooling LECs beginning January 1, 1999.

2. The Parties agree that adoption of the CASBB constitutes only transitional access charge reform.

3. The Parties request the Commission to require quarterly reports from non-pooling facilities-based LECs during 1999 on the operation of the CASBB in the Anchorage market, that the Commission sponsor a workshop to study the operation of the CASBB early in the year 2000, and that the Commission review the operation of the CASBB based on the reports and the results of the workshop. The quarterly reports of each LEC shall include, for each month and for the separate originating and terminating bulk bills, the calculation of the monthly bulk bills, the market share of each interexchange carrier, the amount billed to each interexchange carrier, and a discussion of any significant issues regarding implementation of the CASBB.

4. The Parties agree that implementation of the CASBB should be based on the following guidelines:

- a. The dollars per line price cap should be based on the last approved intrastate NTS revenue requirement of the incumbent LEC, divided by the number of revenue-producing lines served by the incumbent LEC at the end of the test period for the revenue requirement;
- b. In the determination of the maximum monthly bulk bill(s) of each non-pooled LEC, the number of revenue-producing lines shall be based either on the average of beginning of period and end of period number of lines, or based on such other line count that is reasonably synchronized with the billing period.
- c. In the count of revenue-producing lines necessary for the calculations set out in (a) and (b) above, the Parties wish to rely to the extent possible on the count of lines required for existing reports (such as to the National Exchange Carriers Association), and the federal definitions used for such counts, rather than creating new counting requirements. However, at this time the Parties have unable to determine conclusively whether or not the federal definitions used for existing reports are entirely appropriate in purposes of CASBB calculation, and the Parties will further investigate that issue.
- d. The monthly access minutes of interexchange carriers used to determine market share shall be reasonably synchronized with the calculation of lines served.

AT&T

DEM: AT&T strongly endorses the joint industry consensus that DEM weighting is an implicit subsidy that must be removed from access charges and collected through an explicit,

competitively neutral mechanism. The flaws in the current DEM subsidy identified by Staff should not prevent the removal of DEM from access charges because “when the broader group that will be paying into the AUSF sees the flaws in DEM weighting... there will be broad based pressure to investigate and eliminate them.”

Administration of CASBB: IXCs must have access to originating and terminating access minutes of use (AMOU) broken out by LEC as well as each LEC’s total originating and terminating volumes. The best way of doing this may be to require that non-pooling LECs provide all originating and terminating AMOU data to every IXC. The CASBB needs to be monitored closely and revisited “if it goes off the tracks or leads to unanticipated consequences that disadvantage AT&T Alascom’s customers.”

Long term reform: Recommends quantitative analysis similar to that done in Nebraska.

Legality of AUSF: “...the prudent thing for the Commission and all interested parties to do would be to seek enactment of a statute to cure the perceived defects in the current proposal.” A court order enjoining the AUSF process, prior to corrective legislation, would create horrendous problems.

### GCI

CASBB: Adopt the CASBB as proposed by the Staff and accepted by the Supplemental Joint Consensus.

DEM: There is no dispute that the DEM subsidy is an implicit subsidy that should be removed from access charges. GCI disagrees with Staff that there are too many unresolved issues to proceed at this time. The only issue that needs to be resolved now is the double counting of local minutes. GCI states that a change to double counting would cause a mismatch between federal and state jurisdictions.

Establishment of AUSF: The Commission should proceed to establish an AUSF, subject to review by the DOL.

### ATU

Pooling: ATU reiterates earlier comments in opposition to mandatory depooling.

CASBB: ATU “offers its qualified, and time delimited endorsement of Staff’s CASBB proposal.” The CASBB should be an interim, not a long term, solution. “ATU believes that the specific Staff proposal for differentiating originating and terminating access, coupled with the overall downward pricing flexibility available under the per line rate cap, is a useful adjunct to the underlying bulk bill approach Staff advocates. If the Commission eliminates the differential originating and terminating pricing flexibility proposed by Staff, the Commission should allow special contracts and or term and volume tariff discounts.

Deaveraging: The Commission should not preclude access charge deaveraging by LECs.

AUSF Legality: ATU believes that “a legislative solution holds the highest promise for a successful outcome.”

AUSF Administration: ATU opposes the recommendations included in the Staff Report “that categorically exclude consideration of the AECA as the AUSF administrator.

Carrier of Last Resort (CoLR): ATU does not believe that the Staff Report adequately

addressed the CoLR issues of concern to ATU.

### PTI

CASBB: Supports adoption of the CASBB as a transitional access reform.

Pool Withdrawal Mechanism: PTI has doubts about Staff's proposed modification to the pool withdrawal mechanism. PTI questions whether the certification trigger proposed by Staff could result in premature forced withdrawal from the pool in some instances, for example in the case of a pure reseller.

AUSF Administration: AECA should not be precluded from being considered to administer the AUSF.

Legality of AUSF: The Commission should implement the AUSF. If the fund is challenged, it is better that this happens while it is modest in scope; the Commission and industry will gain valuable experience working out the details.

### Rural Coalition

CASBB: The Rural Coalition believes that the CASBB is a reasonable compromise that accommodates the interest of all parties, including ratepayers, for the reasons set forth by Staff in its September 15, 1998 Report.

AUSF Legality: The Rural Coalition believes the Commission "should proceed immediately with the creation and establishment of the AUSF and, to the extent that the Commission believes it is necessary, it should seek additional legislation to "shore up" any deficiencies that might exist in the current statutes.

Deaveraging: The Commission should allow deaveraging as a positive right for LECs facing facilities-based or UNE-based competition. Additionally, the Commission should not adopt the "net public benefit" standard but instead rely upon the more traditional standards of fairness, reasonableness, non-discrimination, and cost-causer cost-payer in adjudicating a LEC's request to deaverage its access charges.

### United

AUSF: Agrees with Staff's recommendation to "proceed with a state universal service fund solely to provide monthly financial assistance to low-income households for telephone subscribership." Recommends coordination with State's Permanent Fund Administrator to see if low-income households can be enrolled, and annually recertificated, for Lifeline assistance when they complete their permanent fund dividend applications.

NTS Cost Recovery: Agrees with Staff that the PICC approach is flawed and that bulk bill weighting should be eliminated.

AUSF Legality: Commission should proceed with adoption of AUSF. Legal risks are probably minimal. Legislation should await further federal changes in interstate USF.

### AECA

AUSF Administration: AECA opposes the Commission's proposed regulations for administration and governance of the AUSF. AECA proposes a structure that would allow

AECA to be the administrator of the AUSF. AECA alleges that Staff has recommended that the Commission adopt a competitive bid process that does not allow anyone with industry experience to bid.

Legality of AUSF: AECA acknowledges that there are legal risks associated with adoption of AUSF but recommends that the Commission do it anyway. Does not believe that AUSF assessments are a tax. Believes that Commission has sufficient statutory authority to establish fund. Believes that the Commission can reduce its legal risks by using AECA to manage the AUSF.

Bristol Bay

AUSF Legality: AUSF collections need not -- and should not -- be taxes. If AS42.05.840 is read in Conjunction with AS 42.05.141(a), .145, .151(a) and .800 through .890, there are legally sufficient standards in the AUSF's enabling legislation to sustain its proposed operations.

# NTS Cost Recovery Method: Carrier-Specific Bulk Bill

**Competition  
Triggers Exit**



**Non-Pooling LECs**

**Set Overall Rate Cap:**

Overall Rate Cap =  $\frac{\text{Exiting ILECs NTS access rev-req prior to exit}}{\text{Exiting ILEC access lines just prior to exit}}$

Overall Rate Cap = "A" \$ /line/month

(Applies to ILEC and all CLECs operating in that service area.)



**Allocate "A" to Originating and Terminating Categories:**

Each LEC allocates "A" to originating and terminating switched access:

Originating portion = "B" (must be at least \$2).

Terminating portion = "C" (cannot exceed A - B).



**Monthly  
Originating Bulk Bill**

= "B" times the LEC's switched access lines in the exiting ILEC's service area

= "OrigBB" (computed monthly)



**Monthly  
Terminating Bulk Bill**

= "C" times the LEC's switched access lines in the exiting ILEC's service area

= "TermBB" (computed monthly)



**Assess to IXCs:**

Monthly, the LEC may charge IXCs a pro rata portion of its OrigBB based on each IXC's portion of the LEC's originating switched access minutes in that service area.



**Assess to IXCs:**

Monthly, the LEC may charge IXCs a pro rata portion of its TermBB based on each IXC's portion of the LEC's terminating switched access minutes in that service area.

**Carrier-Specific Bulk Bill**  
**Example: ATU**

**Competition  
Triggers Exit**



**ATU Service Area**

**Set Overall Rate Cap:**

Overall Rate Cap =  $\frac{\$ 8,186,060}{151,499 \text{ lines}}$

Overall Rate Cap = \$ 4.50 /line/month



**Allocate \$4.50 to Originating and Terminating Categories:**

ATU allocates \$4.50 to originating and terminating switched access:

Originating portion = \$2

Terminating portion =  $\$4.50 - \$2 = \$2.50$



**ATU  
Originating Bulk Bill**

OrigBB =  $\$2 * 150,000 \text{ lines}$

OrigBB = \$300,000

(Computed monthly)



**Assess to IXC's:**

With 50% of ATU's originating switched access minutes, GCI would pay:

$(.5) * \$300,000 = \$150,000$

And with 50%, AT&T would pay:

$(.5) * \$300,000 = \$150,000$



**ATU  
Terminating Bulk Bill**

TermBB =  $\$2.50 * 150,000 \text{ lines}$

TermBB = \$375,000

(Computed monthly)



**Assess to IXC's:**

With 40% of ATU's terminating switched access minutes, GCI would pay:

$(.4) * \$375,000 = \$150,000$

And with 60%, AT&T would pay:

$(.6) * \$375,000 = \$225,000$

**Carrier-Specific Bulk Bill**  
**Example: GCI-LEC in Anchorage**

**Competition  
Triggers Exit**



**ATU Service Area**

**Set Overall Rate Cap:**

Overall Rate Cap =  $\frac{\$ 8,186,060}{151,499 \text{ lines}}$

Overall Rate Cap = \$ 4.50 /line/month



**Allocate \$4.50 to Originating and Terminating Categories:**

GCI-LEC allocates \$4.50 to originating and terminating switched access:

Originating portion = \$2

Terminating portion =  $\$4.50 - \$2 = \$2.50$



**GCI-LEC  
Originating Bulk Bill**

OrigBB =  $\$2 * 10,000 \text{ lines}$

OrigBB = \$20,000

(Computed monthly)



**Assess to IXCs:**

With 99% of GCI-LEC's originating switched access minutes, GCI-IXC would pay:

$(.99) * \$20,000 = \$19,800$

And with 1%, AT&T would pay:

$(.01) * \$20,000 = \$200$



**GCI-LEC  
Terminating Bulk Bill**

TermBB =  $\$2.50 * 10,000 \text{ lines}$

TermBB = \$25,000

(Computed monthly)



**Assess to IXCs:**

With 40% of GCI-LEC's terminating switched access minutes, GCI-IXC would pay:

$(.4) * \$25,000 = \$10,000$

And with 60%, AT&T would pay:

$(.6) * \$25,000 = \$15,000$

**Carrier-Specific Bulk Bill**  
**Example: PTI - Sitka**

**Competition  
Triggers Exit**



**PTI - Sitka Service Area**

**Set Overall Rate Cap:**

Overall Rate Cap =  $\frac{\$ 1,237,688}{12,178 \text{ lines}}$

Overall Rate Cap = \$ 8.47 /line/month



**Allocate \$8.47 to Originating and Terminating Categories:**

PTI-Sitka allocates \$8.47 to originating and terminating switched access:

Originating portion = \$2

Terminating portion =  $\$8.47 - \$2 = \$6.47$



**PTI-Sitka  
Originating Bulk Bill**

OrigBB =  $\$2 * 12,000 \text{ lines}$

OrigBB = \$24,000

(Computed monthly)



**PTI-Sitka  
Terminating Bulk Bill**

TermBB =  $\$6.47 * 12,000 \text{ lines}$

TermBB = \$77,640

(Computed monthly)



**Assess to IXC's:**

With 45% of PTI-Sitka's originating switched access minutes, GCI would pay:  
 $(.45) * \$24,000 = \$10,800$

And with 55%, AT&T would pay:  
 $(.55) * \$24,000 = \$13,200$



**Assess to IXC's:**

With 40% of PTI-Sitka's terminating switched access minutes, GCI would pay:  
 $(.4) * \$77,640 = \$31,056$

And with 60%, AT&T would pay:  
 $(.6) * \$77,640 = \$46,584$

**ALASKA INTRASTATE INTEREXCHANGE ACCESS CHARGE MANUAL**  
PURSUANT TO 3 AAC 48.440  
**EFFECTIVE [OCTOBER 28, 1992]<sup>1</sup>**

**Article**

- 000. General (001 - 005)
- 100. Computation of Charges (101-119)
- 200. (Reserved) [DETERMINATION OF WEIGHTS (201)]
- 300. Apportionment of Net Investment (301-311)
- 400. Apportionment of Expenses (401-411)
- 500. (Reserved)
- 600. Exchange Carrier Association and Its Functions (601-607)
- 700. Revenue Requirement, Supporting Information, and Monitoring (701-704)
- 800. Definitions (801)

**ARTICLE 000. GENERAL**

**Section**

- 001. Application and purpose.
- 002. (Reserved)
- 003. Annual access charge determination.
- 004. Charges to be filed.
- 005. Customers to be assessed.

Section 001(a) is amended to read:

**001. APPLICATION AND PURPOSE.** (a) This Manual establishes rules for access charges for intrastate access services provided by telephone companies on or after January 1, 1999 [1991].

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<sup>1</sup>An effective date will be added when a new date has been determined.

In this Appendix, changes to the Manual adopted in Dockets R-97-5 and R-97-6 are illustrated in legislative drafting style, i.e., additions are underlined and deletions are [IN ALL CAPITAL LETTERS AND ENCLOSED IN BRACKETS].

Section 001 is further amended by adding subsections (d) – (e) to read:

(d) Participation in the access charge pool by an ILEC is mandatory until the exit date specified by commission order. The exit date will be specified in the same order that issues a certificate of public convenience and necessity to the first CLEC to provide local switched access service, through the CLEC's facilities or through unbundled rate elements, in the ILEC's service area. The exit date shall be coordinated by the commission to coincide with approval or revision of the ILEC's access tariff, the CLEC's access tariff, AECA's revised access tariff, and the commencement of service by the CLEC utilizing unbundled network elements or its own facilities. Participation by the ILEC in the AECA pool is prohibited on or after the exit date.

(e) Participation by a CLEC in the access charge pool is prohibited.

Section 003 is amended to read:

**003. ANNUAL ACCESS CHARGE DETERMINATION.** (a) Access charges will be determined annually for pooling companies with a scheduled effective date of January 1. Companies required to withdraw from the pool based on criteria in Section 001 will be required, upon leaving the pool, to adopt access rates according to the criteria in Sections 101 - 119. In order to determine access charges:

(1) each pooling telephone company is required to submit filings in accordance with Section 701; and

(2) the Association is required to submit filings in accordance with Sections 702 and 703 on behalf of pool members.

(b) The filing of any petitions for rejection, investigation, or suspension of the filings required by Sections 701, 702, and 703, and the filing of any responses to such petitions, shall comply with applicable rules relating to practice and procedure.

(c) The Association shall submit the filings described in Sections 702 and 703 on behalf of [ALL] local telephone companies in the State of Alaska remaining in the pool. A telephone company may file separate comments on any component of the filings.

(d) The recurring charges for all access elements except for the Special Access and Equal Access elements shall be aggregated and averaged for all telephone companies remaining in the pool. The recurring charges for the Special Access and Equal Access elements shall be provided on an individual company basis. All elements, whether aggregated or individualized, shall be set out in the Association tariff.

(e) A non-pooling company shall file a tariff for its applicable access charge elements. Modifications to a non-pooling company tariff must be in accordance with Section 116.

(f) [(E)] Except as set forth in Section 004(b), the Association tariff and a non-pooling company tariff shall not

contain charges in the Billing and Collection category or the Information category.

(g) [(F)] The Association tariff and individual company tariffs shall include procedures for resolution of disputes by a telephone company or interexchange carrier. If a dispute raised under these procedures is not resolved, a telephone company or interexchange carrier may file a complaint with the Commission under 3 AAC 48.130.

(h) [(G)] The Association tariff must include rules governing the measurement and reporting of the data necessary for determination of each interexchange carrier's access minutes to be used in calculating the carrier's monthly bulk bill access payments[AND MUST INCLUDE WEIGHTS TO BE APPLIED TO THOSE MINUTES].

Section 004(b) is amended to read:

(b) The carrier's carrier charges for access services filed with the Commission shall also include a charge for the White Pages Information subelement of Information services for pooling LECs only.

Section 005(a) is amended to read:

**005. CUSTOMERS TO BE ASSESSED.** (a) Charges shall be computed and assessed upon any individual, partnership, association, joint-stock company, trust, corporation, governmental entity, or other entity that orders the services offered under

the Association's access tariff or a non-pooling company tariff, including Local Exchange Carrier(s), Interexchange Carrier(s), entities acting as the functional equivalent of either Local Exchange Carrier(s) or Interexchange Carrier(s), whether certificated or otherwise, and End-User(s).

**ARTICLE 100. COMPUTATION OF CHARGES**

**Section**

- |  |   |
|--|---|
| 101. General.  | 110. (Reserved).  |
| 102. <u>Price ceilings for non-pooling LECs</u> [(RESERVED)]         | 111. Common transport.                                      |
| 103. (Reserved)  | 112. Dedicated transport.                                   |
| 104. <u>Carrier common line for non-pooling Companies</u> [RESERVED] | 113. (Reserved)   |
| 105. Carrier common line <u>for pooling companies</u>                | 114. Special access.  |
| 106. Local switching.  | 115. Special access surcharges.                             |
| 107. Equal access.   | 116. Modifying rates for non-pooling companies [(RESERVED)] |
| 108. (Reserved)  | 117. (Reserved)   |
| 109. (Reserved)  | 118. Information services.                                  |
|  | 119. Billing and Collection.                                |

Section 101 is amended to read:

**101. GENERAL.** Charges for each access element shall be computed and assessed as provided in Sections 101 -- 119 [105 -- 115]. For non-pooling, incumbent LECs with more than one study area, initial rates and price ceilings shall be computed on a study area basis unless otherwise authorized by the Commission.

Section 102 is added to read:

**102. PRICE CEILINGS FOR NON-POOLING LECS.** A LEC exiting the pool shall initially compute all charges in Sections 108 -- 115 using the most recent company specific access revenue requirement and demand approved by the commission. The initial rate for a rate element calculated in Sections 104, 106, 107, 111, 112, 114, and 118 for non-pooling LECs will establish a price ceiling for that rate element in the incumbent's study area. The price ceiling applies to the access rates for all LECs providing access service in the incumbent's study area. Modification of rates below the price ceiling is permitted by non-pooling companies in accordance with Section 116.

Section 104 is added to read:

**104. CARRIER COMMON LINE FOR NON-POOLING COMPANIES.**

**104. CARRIER COMMON LINE FOR NON-POOLING COMPANIES.** (a) A charge that is expressed in dollars and cents per line per month shall be assessed upon all certificated interexchange carriers based on their number of presubscribed lines, and a charge that is expressed in dollars and cents per access minute of use shall be assessed upon nonpublic utilities that provide interexchange service and all de minimis carriers registered under 3 AAC 52.361. The charges of this paragraph however shall not be assessed upon interexchange carriers to the extent that they resell intrastate MTS or MTS-type services.

(b) A monthly carrier common line (CCL) rate cap shall be determined by dividing the last approved intrastate NTS revenue requirement of the incumbent LEC by the number of revenue producing lines served by the incumbent LEC at the end of the test period for the revenue requirement.

(c) The monthly originating bulk bill shall be determined by first multiplying the originating component of the LEC's rate cap by the LEC's revenue producing switched access lines. The number of revenue producing access lines shall be based either on the average of beginning of period and end of period number of lines, or based on such other line count method approved by the commission that is reasonably synchronized with the billing period.

(d) The monthly terminating bulk bill shall be determined by first multiplying the terminating component of the LEC's monthly CCL rate cap by the LEC's revenue producing switched access lines. The number of revenue producing access lines shall be based either on the average of beginning of period and end of period number of lines, or based on such other line count method approved by the commission that is reasonably synchronized with the billing period.

(e) The originating component of the LEC's monthly CCL rate cap is an amount expressed in dollars and cents per month and must be less than or equal to the monthly CCL Rate Cap.

(f) The terminating component of the LEC's monthly CCL rate cap is an amount expressed in dollars and cents per month and shall be less than or equal to the LEC's monthly CCL rate cap minus \$2.00.

(g) The sum of the terminating component of the LEC's monthly CCL rate cap plus the originating component of the LEC's monthly CCL rate cap must be less than or equal to the LEC's monthly CCL rate cap.

(h) A LEC's monthly CCL rate cap and the originating and terminating components of the LEC's monthly CCL rate cap must be specified in the LEC's tariff.

(i) A LEC's monthly originating CCL charge to an IXC shall be determined each month by multiplying the LEC's monthly originating bulk bill by the IXC's proportionate originating market share for the month measured by the IXC's access minutes originating on the LEC's facilities. An access customer that generates chargeable access minutes is considered an IXC for purposes of this subsection.

(j) A LEC's monthly terminating CCL charge to an IXC shall be determined each month by multiplying the LEC's monthly terminating bulk bill by the IXC's proportionate terminating market share for the month measured by the IXC's access minutes terminating on the LEC's facilities.

(k) For purposes of this section, the LEC that initially transmits an interexchange call for an end user, before transfer-

ring it to any other carrier, is the originating LEC. The originating LEC is entitled to collect originating switched access charges from the originating IXC.

(l) For purposes of this section, the LEC that delivers an interexchange call to the end user that receives the call is the terminating LEC. The terminating LEC is entitled to receive terminating switched access charges from the terminating IXC.

(m) The first IXC to transmit an interexchange call after it is transferred from the local exchange network is the originating IXC. The originating IXC must pay the originating switched access charges.

(n) The last IXC to transmit an interexchange call before it is transferred to the local exchange network is the terminating IXC. The terminating IXC must pay the terminating switched access charges.

(o) All of the IXCs and LECs involved in the transmission of interexchange calls must provide interconnecting carriers with sufficient information to allow accurate billing of both originating and terminating switched access charges.

(p) An access customer that generates chargeable access minutes is considered an IXC for purposes of this subsection.

(q) A non-pooling LEC may petition the Commission to deaverage the monthly CCL rate cap established for an ILECs study area. The LEC petitioning to deaverage has the burden of proving that:

(1) substantial cost differences exist within the study area;

(2) the proposed deaveraging is an appropriate regulatory response to those differences; and

(3) the proposed deaveraging is in the public interest.

(r) Zone differentials proposed by the petitioning LEC shall be based upon a forward looking cost model that:

(1) apportions the ILEC's most recent CCL revenue requirement to each zone based on the percentage of each zone's total loop cost;

(2) divides each zone's apportioned CCL revenue requirement by total active loops to get the CCL rate cap by zone;

(3) relies on publicly available data;

(4) is subject to scrutiny by all interested parties; and

(5) is not susceptible to manipulation or designed to advance the petitioners strategic interests.

(s) Within ten business days following the rendering of a monthly carrier common line bill, the LEC rendering such bill shall file a Monthly Carrier Common Line Report. The Monthly Carrier Common Line Report shall include, for the separate originating and terminating bulk bills: the calculation of the monthly bulk bills, the market share of each interexchange carrier, and the amount billed to each interexchange carrier.

Section 105 is amended to read:

**105. CARRIER COMMON LINE FOR POOLING COMPANIES.** (a) A charge that is expressed in dollars and cents per month shall be assessed upon all interexchange carriers that use local exchange common line facilities for the provision of intrastate telecommunications services, [EXCEPT THAT THE CHARGE SHALL NOT BE ASSESSED UPON INTEREXCHANGE CARRIERS TO THE EXTENT THEY RESELL MTS OR MTS-TYPE SERVICES,] and a charge that is expressed in dollars and cents per access minutes of use shall be assessed upon all nonpublic utilities that provide interexchange service [THAT USE LOCAL EXCHANGE COMMON LINE FACILITIES]. The charges of this paragraph however shall not be assessed upon interexchange carriers to the extent that they resell intrastate MTS or MTS-type services.

(b) The minutes of use Carrier Common Line charge shall be determined by dividing the annual Carrier Common Line revenue requirement by the total intrastate switched access minutes of use of [ALL SWITCHED ACCESS CUSTOMERS] pooling companies.

(c) The monthly Carrier Common Line charge shall be determined each month by dividing the annual Carrier Common Line revenue requirement for pooling companies by twelve, subtracting the monthly revenue derived from the minutes of use Carrier Common Line charge, and multiplying by the interexchange carrier's proportionate market share for the month.

(d) "Proportionate market share" shall be based on each interexchange carrier's [WEIGHTED MINUTES FOR THE MONTH, DETERMINED AS FOLLOWS:] access minutes associated with interconnection with the facilities of a pooling company.

[(1) THE MINUTES OF EACH INTEREXCHANGE CARRIER SHALL BE WEIGHTED BASED ON THE WEIGHTS IN THE ASSOCIATION TARIFF;

(2) ONCE WEIGHTED, EACH INTEREXCHANGE CARRIER'S WEIGHTED MINUTES IN ALL CATEGORIES AND MILEAGE BANDS ARE SUMMED, AND THE INDIVIDUAL SUMMATIONS FOR ALL INTEREXCHANGE CARRIERS ARE TOTALED; AND

(3) EACH INTEREXCHANGE CARRIER'S SUMMED WEIGHTED MINUTES ARE DIVIDED BY THE TOTAL WEIGHTED MINUTES FOR ALL INTEREXCHANGE CARRIERS.]

(e) [IN THE DETERMINATION OF PROPORTIONATE MARKET SHARE UNDER (D) OF THIS SECTION, EACH INTEREXCHANGE CARRIER'S MINUTES WILL INCLUDE SURROGATE MINUTES FOR NONSWITCHED PRIVATE LINES AS SET FORTH IN THE ASSOCIATION TARIFF.

(f)] Any interexchange carrier shall receive a credit for Carrier Common Line charges to the extent that it resells services for which these charges have already been assessed (e.g., MTS or MTS-type service).

Section 106(a) and (b) are amended and 106(c) is added to read:

**106. LOCAL SWITCHING.** (a) Charges that are expressed in dollars and cents per access minute of use shall be assessed upon

all interexchange carriers that use local exchange switching facilities for the provision of intrastate interexchange services.

(b) For pooling companies, a [A] per minute charge shall be computed by dividing the annual revenue requirement for the Local Switching element of pooling companies by the pooled companies' annual access minutes of use for all intrastate, interexchange services that use local exchange switching facilities.

(c) For non-pooling areas, an initial per minute charge shall be computed by dividing the incumbent's revenue requirement for the Local Switching element by the corresponding demand units for that rate element. The access charge revenue requirement and demand units used to compute the initial rate shall be the revenue requirement and demand units most recently approved by the commission.

Section 107 is amended by adding subsection (c) to read:

(c) For non-pooling areas, the initial rate for this rate element shall be the incumbent's most recently approved rate.

Section 116 is added to read:

**116. MODIFYING RATES FOR NON-POOLING COMPANIES.** (a) Unless permitted by the Commission pursuant to the procedure established in Section 104(d), the access charge rates of a non-pooling LEC must be averaged throughout the LEC's study area.

(b) A non-pooling LEC is authorized to modify access charge rate without approval of the commission provided the modification remains below the authorized rate cap and is otherwise consistent with the provisions of this Manual. A modification of access rates must be consistent with (a) of this section unless the Commission has authorized the access rates to be deaveraged. A non-pooling LEC must maintain a current tariff and all special contracts on file with the commission and must submit a tariff filing in accordance with 3 AAC 48.220 and 3 AAC 48.270 at least 45 days before the effective date of a tariff change or special contract. A tariff revision to increase access charge rates above the price ceilings established in accordance with Sections 104 -- 117 must include all of the supporting information set out in Sections 701 and 702 of the Manual.

Article 200 is removed:

**[ARTICLE 200. DETERMINATION OF WEIGHTS**

**SECTION**

201. DETERMINATION OF WEIGHTS.

**201. DETERMINATION OF WEIGHTS.** FOR THE PURPOSE OF DETERMINING PROPORTIONATE MARKET SHARE, MINUTES SHALL BE WEIGHTED BASED ON

- (1) CALLING DISTANCE;
- (2) TIME OF DAY; AND
- (3) HIGH DENSITY OR LOW DENSITY STATUS.

THE APPLICABLE WEIGHTS SHALL BE DETERMINED EITHER IN CONJUNCTION WITH THE ANNUAL ACCESS CHARGE TARIFF FILING OR IN A SEPARATE PROCEEDING CONVENED FOR THAT PURPOSE.]

**ARTICLE 300. APPORTIONMENT OF NET INVESTMENT.**

**Section**

- |  |                                  |
|--|----------------------------------|
| 301. General.  | 306. Central office equipment.   |
| 302. Net investment.                                     | 307. General support facilities. |
| 303. Information origination/-<br>termination equipment. | 308. Equal access investment.    |
| 304. Subscriber line cable and<br>wire facilities.       | 309. Other investment.           |
| 305. Carrier cable and wire facilities.                  | 310. Capital leases.             |
|  | 311. Return on investment.       |

Section 303 is amended to read:

**303. INFORMATION ORIGINATION/TERMINATION EQUIPMENT (IOT).**

[(A) INVESTMENT IN PUBLIC TELEPHONES AND APPURTENANCES SHALL BE ASSIGNED TO THE CARRIER COMMON LINE ELEMENT.

(B)] Investment in [ALL OTHER] IOT shall be apportioned between the Special Access and Carrier Common Line elements on the basis of the relative number of equivalent lines in use, as provided herein. Each intrastate Special Access Line, excluding lines designated in Section 115(e), shall be counted as one or more equivalent lines where channels are of higher than voice bandwidth, and the number of equivalent lines shall equal the number of voice capacity analog or digital channels to which the higher capacity is equivalent. Local exchange subscriber lines shall be multiplied by the intrastate subscriber plant allocator to determine the number of equivalent local exchange subscriber lines.

**ARTICLE 400. APPORTIONMENT OF EXPENSES.**

**Section**

- |   |  |
|---|--|
| 401. Direct expenses.                                     | 407. Revenue accounting expenses (Account 6620).             |
| 402. Operating taxes (Account 7200).                      | 408. All other customer services expenses (Account 6620).    |
| 403. Marketing expense (Account 6610).                    | 409. Corporate operations expenses (Accounts 6710 and 6720). |
| 404. Telephone operator services expenses (Account 6620). | 410. Equal access expenses.                                  |
| 405. Published directory expenses (Account 6620).         | 411. Other expenses.   |
| 406. Local business office expenses (Account 6620).       |  |

Section 406 is amended to read:

**406. LOCAL BUSINESS OFFICE EXPENSES (ACCOUNT 6620).** Local business office expenses shall be assigned as follows:

(1) end-user service order processing expenses attributable to presubscription shall be apportioned among the Carrier Common Line, Local Switching, and Transport elements in the same proportion as the investment apportioned to those elements pursuant to Section 309;

(2) end-user service order processing, payment and collection, and billing inquiry expenses attributable to the company's own intrastate private line and special access shall be assigned to the Special Access element;

(3) end-user service order processing, payment and collection, and billing inquiry expenses attributable to intrastate private line service offered by an interexchange carrier shall be assigned to the Billing and Collection category;

(4) end-user service order processing, payment and collection, and billing inquiry expenses attributable to the company's own intrastate message toll service shall be assigned to the Interexchange category. End-user service order processing, payment and collection, and billing inquiry expenses attributable to intrastate message toll service offered by an interexchange carrier shall be assigned to the Billing and Collection category;

(5) end-user service order processing, payment and collection, and billing inquiry expenses attributable to TWX service shall be assigned to the Special Access element;

(6) interexchange carrier service order processing, payment and collection, and billing inquiry expenses attributable to private lines and special access shall be assigned to the Special Access element;

(7) interexchange carrier service order processing, payment and collection, and billing inquiry expenses attributable to intrastate switched access and message toll, shall be apportioned among the Carrier Common Line, Local Switching, and Transport elements in the same proportion as the investment apportioned to those elements pursuant to Section 309; and

(8) interexchange carrier service order processing, payment and collection, and billing inquiry expenses attributable to billing and collection service shall be assigned to the Billing and Collection category. [; AND

(9) COIN COLLECTION AND ADMINISTRATION EXPENSES SHALL BE ASSIGNED TO THE CARRIER COMMON LINE ELEMENT.]

**ARTICLE 600. EXCHANGE CARRIER ASSOCIATION AND ITS FUNCTIONS.**

**Section**

- |                                    |                             |
|------------------------------------|-----------------------------|
| 601. Exchange Carrier Association. | 606. Computation of average |
| 602. Board of Directors.           | schedule company pay-       |
| 603. Association functions.        | ments.                      |
| 604. Billing and collection of     | 607. Disbursement of pool   |
| access charges.                    | residue.                    |
| 605. Reporting and distribution    |                             |
| of access revenues.                |                             |

Section 601 is amended to read:

**601. EXCHANGE CARRIER ASSOCIATION.** (a) An Association shall be established in order to prepare and file access charge tariffs on behalf of all telephone companies remaining in the pool.

(b) All telephone companies remaining in the pool shall be deemed to be members of the Association.

Section 603 is amended to read:

**603. ASSOCIATION FUNCTIONS.** (a) The Association shall not engage in any activity that is not related to the preparation of the Association's access [CHARGE] tariffs or the collection and distribution of the Association's access charge revenues unless such activity is expressly authorized by order of the Commission.

(b) Participation in Commission or court proceedings relating to the Association's access charge tariffs, the billing and collection of the Association's access charges, or the

distribution of the Association's access charge revenues shall be deemed to be authorized Association activities.

(c) The Association shall also prepare, file, and modify as necessary an access charge tariff for members of the pool containing terms and conditions for access service in accordance with the Commission's rules.

(d) The Association shall divide the expenses of its operations into two categories. The first category (Category I Expenses) shall consist of those that are associated with the preparation, defense, and modification of the Association tariffs; those expenses that are associated with the administration of pooled receipts and distributions of exchange carrier revenues resulting from the Association tariffs; those expenses that are associated with Association functions pursuant to (c) of this section; and those expenses that pertain to Commission proceedings involving pooling company matters set forth in this Manual. The second category (Category II Expenses) shall consist of all other Association expenses. Category I expenses shall be allocated to the Carrier Common Line, Local Switching, Common Transport, and Dedicated Transport access charge elements by utilizing the ratio of the revenue requirement for each element to the [TOTAL STATEWIDE] revenue requirement for all of those elements for all telephone companies participating in the Association's access charge pool.

(e) Category I expenses shall be included in determination of access charge rates in accordance with the revenue requirement assignment in (d) of this section.

Section 604 is amended to read:

**604. BILLING AND COLLECTION OF ACCESS CHARGES.** (a) The Association shall bill and collect [ALL] access charges as agent for its access charge pool member telephone companies, with the exception of charges for Special Access and Equal Access. Each telephone company shall bill and collect its specific charges for Special Access and Equal Access, and the revenue from charges for Special Access and Equal Access shall not be included in pooled revenues distributed pursuant to Section 605. Each telephone company shall be individually responsible for profits or losses associated with charges for Special Access and Equal Access.

(b) For pooling and non-pooling companies, all [ALL] access charges shall be billed monthly and in accordance with a tariff approved by the Commission.

Section 605 is amended to read:

**605. REPORTING AND DISTRIBUTION OF ACCESS REVENUES.**  
(a) For pool members, access [ACCESS] demand units, except for Special Access and Equal Access demand units, shall be reported monthly by telephone companies to the Association for computation of monthly pool revenue distributions in accordance with Sections 600 -- 607. For pool members, demand [DEMAND] units and revenue

associated with Special Access and Equal Access shall also be reported by telephone companies to the Association but may not be used in the computation of pool revenue distributions.

(b) Association expenses incurred during the month that are allowable access charge expenses shall be reimbursed before any other funds are disbursed.

(c) Except as provided in (b) of this section, payments to average schedule companies that are computed in accordance with Section 606 shall be disbursed before any other funds are disbursed. A telephone company that participates in the National Exchange Carrier Association, Inc., as an average schedule company shall be deemed to be an average schedule company for purposes of this Manual.

(d) The residue shall be disbursed to all remaining pool telephone companies that are not average schedule companies in accordance with Section 607.

Section 607(a) is amended to read

**607. DISBURSEMENT OF POOL RESIDUE.** (a) The residual pool revenues shall be distributed to [TELEPHONE COMPANIES] pool members which are not average schedule companies in the following order:

(1) Carrier Common Line element revenue requirement for each telephone company.

(2) The expense portion of each telephone company's revenue requirement for the Local Switching, Common Transport, and Dedicated Transport elements and White Pages Information subelement.

(3) The return portion of each telephone company's revenue requirement for the Local Switching, Common Transport, and Dedicated Transport elements and White Pages Information subelement.

**ARTICLE 700. REVENUE REQUIREMENT, SUPPORTING INFORMATION, AND MONITORING.**

**Section**

- 701. Annual filings by individual pooling companies.
- 702. Annual filings by Exchange Carrier Association for pooling companies.
- 703. Final access charge computation and submission for pooling companies.
- 704. Monitoring reports for pooling companies.
- 705. Annual filings by non-pooling companies

Section 701 has been amended to read:

**701. ANNUAL FILINGS BY INDIVIDUAL POOLING COMPANIES.** (a) Unless otherwise ordered by the commission, 3 AAC 48.275(a) does not apply to the development and support of access charges.

(b) No later than July 15 of each year each telephone company remaining in the pool, except average schedule companies, shall submit the following information in support of its access charge revenue requirement:

(1) an audited financial statement, including balance sheet, income statement (historical results of operation), auditor's opinion, and footnotes for the year prior to the year

in which the filing is made. If no audited statement is available, the company shall submit an unaudited financial statement and an affidavit explaining why an audited statement is not available;

(2) historical expenses and net investment (rate base) by account designations under 3 AAC 48.277(a)(1) and (2);

(3) for each pro forma adjustment to historical expenses or rate base, a schedule showing the computation of the adjustment and the changes to each account and the changes in total and a narrative description that fully supports the reason for the adjustment and explains the method used to compute the adjustment;

(4) a schedule of adjustments showing all items other than those in (b)(3) of this section that are necessary to reconcile the jurisdictional cost separations study required by (b)(9) of this section to the historical cost information provided under (b)(1) -- (3) of this section;

(5) computation of the pro forma provision for income taxes;

(6) computation of the pro forma cash working capital requirement, based on a 15-day allowance applied to cash operating expenses, including only Plant Specific Operating Expenses, Plant Nonspecific Operating Expenses less Account 6560, Customer Operations Expenses, and Corporate Operations Expenses;

(7) a summary schedule listing all pro forma and recon-ciling adjustments by account designation, with each adjustment referenced to the individual schedule required by (b)(3) and (b)(4) of this section and with separate totals for expenses and rate base for each column in the schedule and with a column showing the total of all pro forma and reconciling adjustments;

(8) a summary schedule, by account designation, with a column showing the historical year-end balances that can be reconciled to the historical financial statements, a column listing the total pro forma and reconciling adjustments, a column showing the adjusted totals by account, thus arriving at the adjusted total company pro forma totals by account designation, and with all columns in the schedule including totals;

(9) a "six-way" jurisdictional cost separations study that separates the expenses and rate base in accordance with 3 AAC 48.430, including a summary of the results of the jurisdictional cost separations study by account designations under 3 AAC 48.277(a)(1) and (2);

(10) a study showing intrastate expenses and rate base components apportioned to each access charge element and category in conformance with this Manual to determine a revenue requirement per element or category;

(11) a fluctuation analysis on an individual account basis for all operating expense and operating tax accounts in a

format that shows the account number and title, year-end balances for the prior year and the year prior to that, the dollar difference between the two years, and the percent difference between the two years. Fluctuations that exceed 10 percent and that exceed \$25,000 for any company with total revenues of greater than \$10,000,000; \$10,000 for any company with total revenues of \$5,000,000 to \$10,000,000; and \$2,500 for any company with total revenues of less than \$5,000,000, must be explained. Unusual or significant events that occurred during the test year should be described in the fluctuation analysis;

(12) proposed rates for Special Access, including sub-elements, and Equal Access, together with schedules supporting the development of those rates; demand units for Special Access and Equal Access shall be a monthly average computed using the actual units for the first six months of the year and the projected units for the remaining six months of the year; and

(13) prefiled testimony, in narrative or question and answer format, adopting all of the schedules required by this section, and to the extent not explained in the schedules themselves, supporting and explaining the filing. Each filing must include, either in supporting schedules or in the prefiled testimony, a description of nonregulated activities, the dollar value of the activities, where the activities are shown on financial schedules, and any management activity by company management of other companies; a description of the method used to assign

and allocate costs to nonregulated activities; a description of affiliated interest transactions; a description of unusual or significant events that occurred during the test year or subsequent to the test year before the filing; a description of any new accounting standards that differ materially from prior filings; and a description of and justification for any noncost based treatment of Special Access charges.

(c) Pro forma adjustments shall be made to reflect the applicable law and regulations, policies, and orders of the Commission. Pro forma adjustments may be made to normalize historical results of operation and to reflect significant facts affecting the revenue requirement computation. Pro forma rate base and depreciation shall be based on the simple average of the prior year-end and projected year-end plant balances. Rate of return, for filing purposes, shall be the rate of return granted in the prior year's access charge proceeding.

Section 702(a) has been amended to read:

**702. ANNUAL FILINGS BY EXCHANGE CARRIER ASSOCIATION FOR POOLING COMPANIES.** (a) By no later than July 15 of each year, the Association shall submit the following information:

(1) supporting information for the Category I expenses of its operations as defined in Section 603(d);

(2) supporting information for payments made, or to be made, to average schedule companies in accordance with Section 606; and

(3) prefiled testimony in support of the information required by (a)(1) and (a)(2) of this section;

Section 703 is amended to read:

**703. FINAL ACCESS CHARGE COMPUTATION AND SUBMISSION FOR POOLING COMPANIES.** Within 15 days after resolution of issues arising from filings made pursuant to Sections 701 and 702, or on such other date as ordered by the Commission, the Association shall submit supporting information for access charges computed as follows:

(a) For each telephone company, the intrastate expenses and rate base components determined for each telephone company, apportioned to each access charge element and category in conformance with this Manual to determine a revenue requirement per element or category per telephone company. The rate of return used to determine each pooling company's revenue requirement shall be established by the Association such that the overall pooled rate of return equals the rate of return determined by the Commission pursuant to Section 311.

(b) The revenue requirement of the average schedule companies calculated in accordance with Section 606 shall be allocated to the Carrier Common Line, Local Switching, Common

Transport, and Dedicated Transport access charge elements by utilizing the ratio of the revenue requirement for each element to the total statewide revenue requirement for those elements for all telephone companies except average schedule companies.

(c) The revenue requirement per access charge element per telephone company determined in (a) of this section shall be combined into a pool revenue requirement per element for all companies remaining in the pool.

(d) The Category I expenses of the Association shall be apportioned to access charge elements in conformance with Section 603(d) and added to the amounts in (b) of this section for a total pool revenue requirement for the Carrier Common Line, Local Switching, Common Transport, and Dedicated Transport elements.

(e) The approved total demand units per element for the pool for the Local Switching, Common Transport, and Dedicated Transport elements shall be shown.

(f) The pool revenue requirement for the Carrier Common Line element shall be divided by twelve to produce the monthly Carrier Common Line revenue requirement for the pooled companies.

(g) The pool revenue requirement for the Local Switching, Common Transport, Dedicated Transport elements and White Pages Information subelement shall be divided by the pool demand units for each element or subelement to produce the related access charge per demand unit.

(h) The revenue requirement for the Special Access and Equal Access elements shall be used to develop appropriate access charges for individual telephone companies.

(i) Revised tariff sheets shall be filed to implement the access charges computed in accordance with this section.

Section 704 is amended to read:

**704. MONITORING REPORTS FOR POOLING COMPANIES.** (a) The Association shall file biannual monitoring reports by October 1 for the first six months of the year and by April 1 for the second six months of the year.

(b) The monitoring reports shall contain the following information for the six-month reporting period:

(1) actual demand units per telephone company for the Local Switching, Common Transport, Dedicated Transport, Special Access, and Equal Access elements and White Pages Information subelement for all pooling companies;

(2) if access services are being provided to more than one interexchange carrier, actual demand units per interexchange company for the Carrier Common Line element;

(3) pool access charge revenues per access charge element; and

(4) Special Access and Equal Access revenues per telephone company.

(c) The monitoring report for April 1 shall also contain the following information for the previous twelve-month reporting period:

(1) the retail minutes (excluding switched minutes on private lines) by interexchange carrier, showing percent market share (as measured by relative percentage of all retail minutes); and

(2) the total market share for all carriers with *de minimis* status registered under 3 AAC 52.361.

Section 705 is added to read:

705. ANNUAL FILINGS BY NON-POOLING COMPANIES. No later than July 15 of each year each non-pooling telephone company shall submit the following information: demand units and rates charged to customers by month for Carrier Common Line (by rate zone if deaveraged), Local Switching, Common Transport, and Dedicated Transport elements for the preceeding 18 months, with year-to-date totals for the previous calendar year.

#### ARTICLE 800. DEFINITIONS.

##### Section

801. Definitions.

Section 801 is amended to read:

**801. Definitions.** Unless the context indicates otherwise, in this Manual

(a) "Access Minutes" or "Access Minutes of Use" is that usage of exchange facilities in intrastate toll service for the purpose of calculating chargeable usage. On the originating end of an intrastate interexchange toll call, usage is to be measured from the time the originating end-user's call is delivered by the telephone company and acknowledged as received by the interexchange carrier's facilities connected with the originating exchange. On the terminating end of an interexchange intrastate toll call, usage is to be measured from the time the call is received by the end-user in the terminating exchange. Timing of usage at both the originating and terminating end of an intrastate interexchange call shall terminate when the calling or called party disconnects, whichever event is recognized first in the originating and terminating end exchanges, as applicable;

(b) "Access Service" includes services and facilities provided for the origination or termination of any intrastate toll telecommunication;

(c) "Annual revenue requirement" means the sum of the return component and the expense component;

(d) "Association" means the telephone company exchange carriers' Association described in Section 600;

(e) "Big Three Expenses" are the combined expense groups comprising: plant specific operations expenses, Accounts 6110, 6120, 6210, 6220, 6230, 6310, and 6410; plant nonspecific opera-

tions expenses, Accounts 6510, 6530, and 6540; and customer operations expenses, Accounts 6610 and 6620;

(f) "Big Three Expense Factors" are the ratios of the sum of Big Three Expenses apportioned to each element or category to the combined Big Three Expenses;

(g) "Cable and Wire Facilities" or "C&WF" includes all equipment or facilities that are described as cable and wire facilities in the Separations Manual and included in Account 2410;

(h) "Carrier Cable and Wire Facilities" means all cable and wire facilities that are not subscriber line cable and wire facilities;

(i) "Central Office Equipment" or "COE" includes all equipment or facilities that are described as central office equipment in the Separations Manual and included in Accounts 2210, 2220, and 2230;

(j) "Competitive Local Exchange Carrier" ("CLEC") means a carrier, other than the ILEC, which is certificated by the Commission to provide local exchange service in the ILEC's service area.

(k)[(J)] "Corporate Operations Expenses" include executive and planning expenses in Accounts 6710 and general and administrative expenses in Account 6720;

(l)[(K)] "Customer Operations Expenses" include marketing and services expenses in Accounts 6610 and 6620, respectively;

(m)[(L)] "Direct Expenses" means expenses that are attributable to a particular category or categories of tangible investment described in Sections 300 -- 310 and include

(1) plant specific operations expenses in Accounts 6110, 6120, 6210, 6220, 6230, 6310, and 6410; and

(2) plant nonspecific operations expenses in Accounts 6510, 6530, 6540, and 6560;

(n)[(M)] "End-user" means any customer of an intrastate telecom-munications service that is not a carrier except that a carrier other than a telephone company shall be deemed to be an "end-user" when such carrier uses a telecommunications service for administrative purposes and a person or entity that offers telecommunications services exclusively as a reseller shall be deemed to be an "end-user" if all resale transmissions offered by such reseller originate on the premises of such reseller;

(o)[(N)] "Entry Switch" means the telephone company switch in which a transport line or trunk terminates;

(p)[(O)] "Equal Access Investment" and "Equal Access Expenses" mean equal access investment and expenses as defined for purposes of the Separations Manual;

(q)[(P)] "Expense Component" means the total expenses and income charges for an annual period that are attributable to a particular element or category;

(r)[(Q)] "Expenses" include allowable expenses as defined in 3 AAC 48.277(a)(1) -- (4), apportioned to intrastate toll

services pursuant to the Separations Manual and allowable income charges apportioned to intrastate toll services pursuant to the Separations Manual;

(s)[(r)] "General Support Facilities" include buildings, land, vehicles, aircraft, work equipment, furniture, office equipment, and general purpose computers as described in the Separations Manual and included in Account 2110;

[(S) "HIGH DENSITY LOCATIONS" MEANS ANCHORAGE, CHUGIAK, EAGLE RIVER, FAIRBANKS, HOMER, JUNEAU, KENAI, NORTH POLE, PALMER, SEWARD, SOLDOTNA, WASILLA, AND WILLOW;

(T) "HIGH DENSITY MINUTES" MEANS ACTUAL OR SURROGATE MINUTES THAT BOTH ORIGINATE AND TERMINATE IN LOCATIONS DEFINED AS HIGH DENSITY; AND]

(t) "Incumbent Local Exchange Carrier" ("CLEC") means the telephone utility, or its successor, certificated to provide local exchange telephone service within its service area as of February 8, 1996, or a local exchange carrier designated by the Commission as the incumbent.

(u) "Information Origination/Termination Equipment" or "IOT" includes all equipment or facilities that are described as information origination/termination equipment in the Separations Manual and in Account 2310 except information origination/termination equipment that is used by telephone companies in their own operations;

(v) "Interexchange" or the "Interexchange category" includes services or facilities provided as an integral part of intrastate telecommunications that is not described as "access service" for purposes of this Manual;

(w) "Line" or "Trunk" includes, but is not limited to, transmission media such as radio, satellite, wire cable, and fiber optic cable means of transmission;

[(X) "LOW DENSITY MINUTES" MEANS ACTUAL OR SURROGATE MINUTES THAT EITHER ORIGINATE OR TERMINATE IN A LOCATION THAT IS NOT DEFINED AS HIGH DENSITY;]

(x) [(Y)] "Manual" means the Alaska Intrastate Interexchange Access Charge Manual adopted in 3 AAC 48.440;

(y) [(Z)] "Net Investment" means allowable original cost investment (not including investment funded with contributions in aid of construction) in Accounts 2001, 2003, 1220, and 1402 that has been apportioned to intrastate services pursuant to the Separations Manual and from which depreciation, amortization, and other reserves attributable to such investment, including unamortized investment tax credits and deferred income taxes, that has been apportioned to intrastate services pursuant to the Separations Manual have been subtracted and to which working capital that is attributable to intrastate services has been added;

(z) [(AA)] "Operating Taxes" include all allowable taxes in Account 7200 and allowable payments in lieu of taxes for nontax-paying telephone companies;

(aa) [(BB)] "Origination" of a service that is switched in a Class 4 switch or an interexchange switch that performs an equivalent function ends when the transmission enters such switch and "termination" of such a service begins when the transmission leaves such a switch, except that

(1) switching in a Class 4 switch or transmission between Class 4 switches that is not deemed to be interexchange by the Commission will be "origination" or "termination" for purposes of the provisions of this Manual, and

(2) "Origination" and "Termination" do not include the use of any part of a line, trunk, or switch that is not owned or leased by a telephone company;

(bb) [(CC)] "Origination" of any service other than a service that is switched in a Class 4 switch or a switch that performs an equivalent function ends and "termination" of any such service begins at a point of demarcation that corresponds with the point of demarcation that is used for a service that is switched in a Class 4 switch or a switch that performs an equivalent function;

(cc) [(DD)] "Private Line" means a line that is used exclusively for an interexchange service other than MTS, WATS,

or an MTS-WATS equivalent service, including a line that is used at the closed end of an FX, WATS, or CCSA service or any service that is substantially equivalent to a CCSA service;

[(EE) "PUBLIC TELEPHONE" IS A TELEPHONE PROVIDED BY A TELEPHONE COMPANY THROUGH WHICH AN END-USER MAY ORIGINATE INTRASTATE TELECOMMUNICATIONS FOR WHICH THE END-USER PAYS WITH COINS OR BY CREDIT CARD, COLLECT, OR THIRD NUMBER BILLING PROCEDURES;]

(dd) [(FF)] "Return Component" means net investment attributable to a particular element or category multiplied by the authorized annual rate of return;

(ee) [(GG)] "Separations Manual" means the standard procedures adopted in 3 AAC 48.430 for separating the property, costs, revenues, expenses, taxes, and reserves of a telephone company between its interstate, intrastate, and local exchange revenue requirements;

(ff) [(HH)] "Special Access" means a private line as defined in (aa) of this section;

(gg) [(II)] "Subscriber Line Cable and Wire Facilities" means all lines or trunks on the subscriber side of a Class 5 or end office switch, including lines or trunks that do not terminate in such a switch, except lines or trunks that connect an interexchange carrier;

(hh) [(JJ)] "Telephone Company" means a carrier that provides telephone local exchange service as defined in 3 AAC 48.820(19);

(ii) [(KK)] "Unit of Capacity" means the capability to transmit one conversation; and

(jj) [(LL)] "WATS Access Line" means a line or trunk that is used exclusively for WATS service.

**[EDITOR'S NOTE: THE NNX DESIGNATIONS INCLUDED IN THE DEFINITION OF "HIGH DENSITY LOCATIONS" AT SECTION 801(S) ARE SET OUT IN COMMISSION ORDERS AND MAY BE OBTAINED FROM THE COMMISSION AT ITS OFFICE LOCATION DESIGNATED IN 3 AAC 48.010.]**