



Alaska and Federal Universal Service Fund Reform Proposals September 2011

In 2010, Alaska telecommunications companies received \$219 million of the \$4.6 billion “high-cost” federal universal service fund (USF) to provide voice service in the state.¹ Current proposals to shift those high-cost subsidies to support broadband could possibly have a huge impact upon many Alaska companies and providers.

It is not a surprise that a significant portion of Alaska is unserved by broadband service. Indeed, even the provision of telephone service in the state is checkered. Only four traditional telephone companies serve more than 10,000 lines, and six such firms serve less than 300 lines each. In fact, Alaska includes an area with the second largest per-line high-cost subsidy in the U.S., where Adak Tel Utility received \$2.78 million in 2010 to support 165 lines in an area it describes as “the farthest west city in the United States...[O]ver 1200 miles west of Anchorage” (per line support is \$16,876 annually).^{2,3}

Moreover, these exchanges are frequently isolated from one another, not connected by roads, and often rely upon satellite service for middle-mile connections even in towns where the local phone exchange is “wired.”

Not surprisingly, access to broadband in Alaska is similarly checkered. Connected Nation’s data indicates that 22% of Alaska’s population (approximately 155k people, or 49k households) does not have access to terrestrial broadband service at speeds of 3 Mbps down/768 kbps upstream,⁴ speeds roughly comparable to the National Broadband Plan’s national broadband availability target. FCC analysis of the data it collected from providers in 2010 projects a similar number of unserved Alaskans, of 23-24%.

Proposals to shift the current voice USF fund to subsidize broadband networks directly in unserved areas could greatly affect Alaska for two principal reasons:

- **First**, both the FCC and the industry-sponsored “America’s Broadband Connectivity” (or “ABC Plan”) proposals would effectively “cap” the amount of subsidy that a provider could collect for a household. Areas with broadband costs above this cap would be expected to rely upon satellite service. Because of extremely high costs, a large portion of the unserved population in Alaska would **not** be eligible to receive high-cost subsidies for terrestrial service.
- **Second**, both the FCC and the ABC Plan proposals would phase out high-cost subsidies that competitive (usually wireless) providers receive to provide voice service. We estimate that as much as 55% of the high-cost subsidies that Alaska companies receive today could be eliminated due to this reason alone.

¹ Federal Communications Commission Response to the U.S. House of Representatives Committee on Energy & Commerce, “Question Number 3,” <http://republicans.energycommerce.house.gov/Media/file/PDFs/2011usf/ResponsetoQuestion3.pdf>

² Federal Communications Commission Response to the U.S. House of Representatives Committee on Energy & Commerce, “Question Number 5,” <http://republicans.energycommerce.house.gov/Media/file/PDFs/2011usf/ResponsetoQuestion5.pdf>

³ Ex Parte Letter filed with the FCC in part by Adak Eagle Enterprises, WC Docket 10-90, GN Docket No. 09-51, and WC Docket No. 05-337; <http://fallfoss.fcc.gov/ecfs/document/view?id=7021705658>

⁴ Connect Alaska, April 2011.



Implementing both of these changes at the same time would be a “double whammy” of sorts to Alaska providers — subsidies to competitive providers like GCI would be eliminated, and yet subsidies would not be guided to build terrestrial networks in Alaska because of the per-household limits on subsidies. Even if one believes that it might not make sense from a public policy perspective to spend tens of thousands of dollars per year per line to subsidize multiple providers of voice service in parts of Alaska, the proposed shifts will have a sharp impact on the telecommunications landscape in the state.

Current Subsidy Recipients in Alaska.

The following table lists the high-cost subsidies received by the largest providers in Alaska – ACS, American Broadband Communications, AT&T, Copper Valley, GCI, and Mantanuska. It is important to know that all of these companies except AT&T have both “incumbent” areas in which they own the traditional telephone exchange and “competitive” areas in which they receive high-cost support as a “CETC.” This distinction is important, because both the FCC and the ABC Plan would phase out all CETC funding entirely.

	Federal High-Cost Universal Service Fund Disbursements in 2010 (in thousands)
Incumbent LECs	\$99,500
ACS	\$26,254
American Broadband	\$8,458
Copper Valley	\$10,577
GCI (United Utilities)	\$4,243
Mantanuska	\$22,146
All Other ILECs (12 other firms)	\$27,822
Competitive Providers Total	\$119,470
AT&T Wireless	\$26,191
ACS Wireless	\$29,699
American Broadband	\$182
Copper Valley Wireless	\$6,734
GCI	\$42,544
Mantanuska Wireless	\$8,124
All other CETCs (5 other firms)	\$5,996

Federal Communications Commission, 2010.



The above numbers are aggregated among a number of FCC high-cost subsidy programs. High-cost federal USF in Alaska includes a number of special programs designed for insular, rural, bush, and Tribal areas.

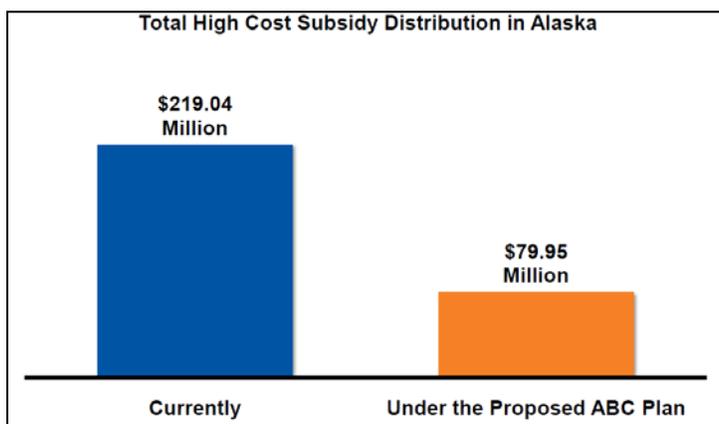
The FCC's Proposed Connect America Fund

In 2010 and 2011, the FCC proposed a set of fundamental reforms to the federal USF program. These reforms would shift these federal subsidies *away* from traditional dial tone service and into a "Connect America Fund" that would directly support the provision of broadband services. The FCC's package of reform proposals contains the following components:

- Subsidize the provision of 4 Mbps download/1 Mbps upload fixed broadband service in areas that the SBDD program identifies as being "unserved"
- Create a \$300 million wireless broadband fund that would support wireless data networks
- Establish broadband support pilots for the \$1.3 billion Low Income program
- Reform the \$2.7 billion E-rate and rural health programs in a way that would facilitate higher connective access for community anchors and promote utilization of innovative devices (such "School-to-Home" equipment and e-textbooks)
- Phase out existing dial tone subsidies, and
- Eliminate "high cost" subsidies of overlapping (CETC) providers in the same area

Because the FCC plan would eliminate subsidies to CETCs, alter rate-of-return regulation, and rely upon satellite service for the highest cost areas, it would shift the majority of high-cost subsidies out of Alaska towards the Lower 48. GCI estimates that were the FCC proposal implemented, it would reduce the subsidies that Alaska providers receive by 75% by the year 2016, or \$164 million current dollars.

The ABC Plan Proposal

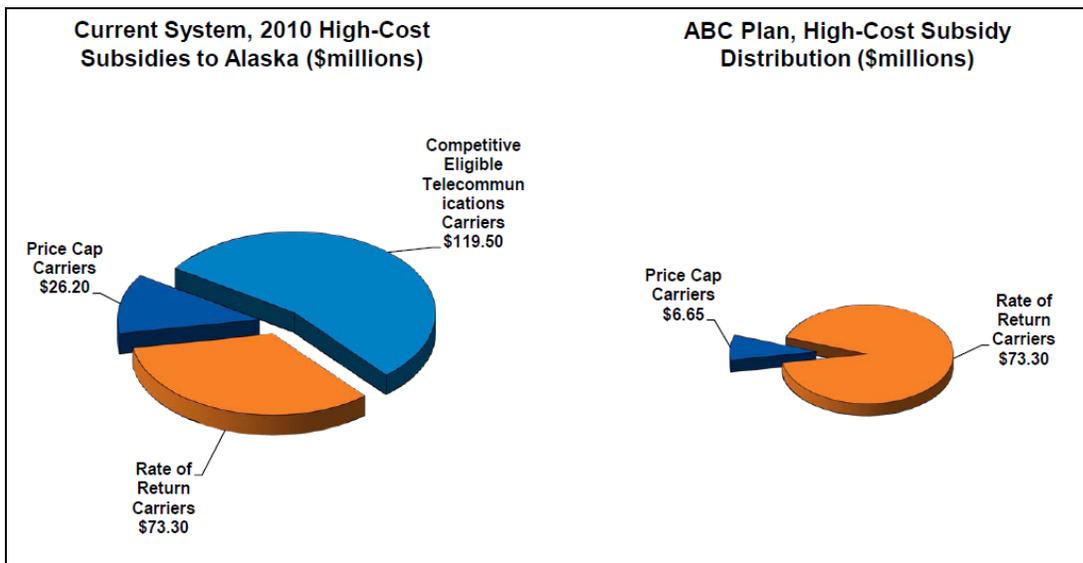


Recently, a group of large telephone companies including AT&T, Verizon, Windstream, CenturyLink, Frontier, and FairPoint proposed their own USF reform plan, called America's Broadband Connectivity Plan. This ABC Plan addresses only the high-cost subsidies that are received by "price cap" carriers. Nationally, price cap carriers (which include all ABC Plan authors) constitute only \$2.4 billion of

the total \$4.6 billion high cost program, but they represent approximately 65% of the population of the country “unserved” by broadband Internet service. In Alaska, ACS is the only price cap incumbent carrier, and ACS has not endorsed the ABC Plan.

Despite its more limited scope, the basic premise of the ABC Plan is the same as the FCC proposal: eliminate all existing CETC funding and shift high-cost funds received by price cap incumbent carriers to fund broadband networks in the unserved areas within those price cap providers’ service territories. The ABC Plan establishes a firm per-line cap on funding of \$3000 per line per year; all other areas would need to rely upon satellite service. Nationally, this would amount to approximately 730,000 households and business locations.⁵

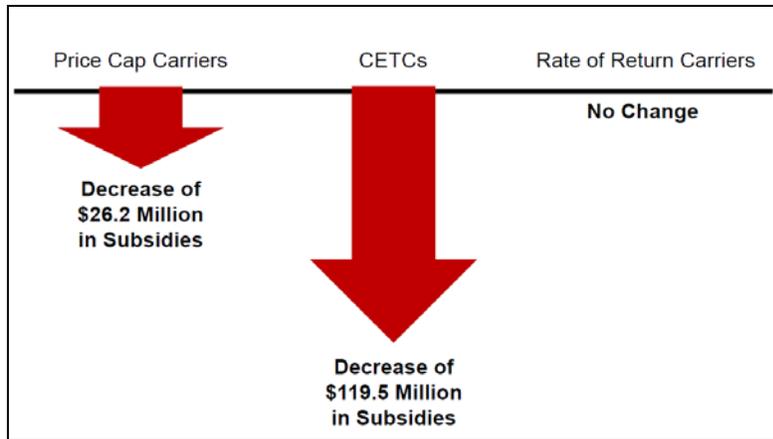
In Alaska, the ABC Plan would eliminate approximately two-thirds (\$145.7 million) of the high-cost subsidies that Alaska providers receive — the \$119.5 million provided to CETCs like GCI and the \$26.2 million that price-cap incumbent ACS receives. In return, the ABC Plan proponents estimate that Alaska would receive only \$6.65 million from the new Connect America Fund to build terrestrial broadband networks in the state.⁶



Stated simply, the ABC Plan would essentially shift \$139 million of USF subsidies out of Alaska to the Lower 48. Even though the ABC Plan would effectively freeze the subsidies that rural rate of return providers (like Copper Valley) receive to serve Alaska, overall the proposal would reduce Alaska’s subsidies by 63%.

⁵ <http://americasbroadbandconnectivity.org/wp-content/uploads/2011/07/Attachment1-Framework-of-the-Proposal.pdf>, pages 5 and 6.

⁶ United States Telecom Association Notice of Exparte, August 16, 2011, <http://fjallfoss.fcc.gov/ecfs/document/view?id=7021703313>



Like the FCC proposal, the “double whammy” of eliminating subsidies to competitive providers and imposing a \$3000/year per household cap on terrestrial broadband network subsidy hits Alaska very hard. Much of Alaska’s 49,000 unserved households would be forced to continue to rely upon satellite service.

The GCI Proposal

GCI receives nearly \$47 million annually in high-cost subsidies (most of which is CETC funding) and would be significantly affected by either the FCC proposal or the ABC Plan. As a result, on August 1, it made its own proposal to the FCC. The GCI proposal would “freeze” the overall level of USF support that providers in Alaska receive at 2011 levels. The FCC asked for public comment on this proposal in the same public notice that sought comment on the ABC Plan.

GCI’s freeze proposal would apply statewide at approximately \$220 million per year. In exchange, subsidy recipients in the state would commit to deploying 4 Mbps down/768 kbps up service to two-thirds of households in their respective service territories within five to seven years, where terrestrial middle-mile facilities exist.

The message of those that back GCI’s proposal may be a simple one: since providing even basic communications in Alaska is an obvious challenge, no current subsidy dollar that the state currently receives should be shifted out of the state.

That said, commitments to freeze the amount that any one state receives from the USF may be difficult to maintain. The National Broadband Plan, the FCC’s USF reform proposal, and the political dynamic of USF reform all have a common message: that while converting the fund to support broadband is a national priority, that shift needs to happen within the current size and budget of the fund. Since the FCC is essentially dealing with a fixed budget, shifts in the USF’s funding priorities will need to occur.

Timing

The FCC is currently taking public comment on both the ABC Plan and the GCI proposal. The Chairman has stated that he intends for the FCC to vote on the proposal at the October 2011 meeting, although it is widely anticipated that this will slip to November.



Connect Alaska's Role

- Under any of the proposals (even the GCI “freeze” proposal), the broadband availability data collected by Connect Alaska will be a critical part of implementation. Stated simply, knowing what parts of Alaska have broadband and verifying build-out will be key parts of any reform package, and not simply for last mile service but also for middle mile availability, which plays a key role in GCI’s proposal.
- Connect Alaska intends to highlight the reliability of our data, our verification and validation tools, and the openness of our approach to mapping.
- Connect Alaska’s research also can help track the success and impact of projects like GCI’s middle mile network that was funded by the Broadband Technology Opportunities Program (the Terra-SW project).
- Alaska has the added resource of broadband planning funding through the same grant that funds Connect Alaska – with the possibility of a radical change in broadband funding in the state, now would be a good time for Alaska to start deploying those dollars for long-range planning.