



Dykema Gossett PLLC
4000 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402
WWW.DYKEMA.COM
Tel: (612) 486-1900

Direct Dial: (612) 486-1586
Direct Fax: (855) 223-7059
Email: SHeim@dykema.com

December 2, 2014

Lawrence E. Strickling
Assistant Secretary for Communications and Information
National Telecommunications and Information
Administration
1401 Constitution Avenue N.W.
Attn: Arctic NOI
Washington, DC 20230

Re: Arctic Region Notice of Inquiry

Dear Assistant Secretary Strickling:

Thank you for the opportunity to respond to the National Telecommunications and Information Administration (“NTIA”) Notice of Inquiry seeking public comment on the current and potential availability of communications services in the Arctic region.¹ This letter presents information specific to OTZ Telephone Cooperative, Inc. (“OTZ”), headquartered in Kotzebue, Alaska.² OTZ offers the following discussion of communications issues in the OTZ service area for your consideration.³

¹ See Telecommunications Assessment of the Arctic Region; Notice of Inquiry, 79 Fed. Reg. 192 (Oct. 3, 2014), pp. 59, 746 – 59, 750.

² Much of the data requested by the Notice of Inquiry is publicly available. OTZ provides links to those documents in this letter. “A cooperative is a private business organization that is owned and controlled by the people who use its products, supplies or services.” <http://sfp.ucdavis.edu/cooperatives/whatis.html>.

³ In addition to the links provided in the footnotes, OTZ attaches several documents for easy reference. The documents include an *ex parte* letter filed with the FCC by OTZ and two sets of comments filed by The Alaska Rural Coalition, a collaboration of Alaska telecommunications companies, including OTZ.



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OTZ is a member-owned cooperative providing telephone, cellular and Internet services throughout the Northwest Arctic Borough of Alaska.⁴ OTZ serves Kotzebue (population 3,237), ten small native villages and the Red Dog zinc-lead mine.⁵ Alaska has only 1.2 persons per square mile, as compared to the United States' average of 87.4 persons per square mile.⁶ The northwest area of Alaska where OTZ serves is one of the most sparsely populated areas of the state. In fact, the Commission has targeted Alaskan Native Villages as one of three key regions "where the needs [for telecommunications services] are particularly acute."⁷

The Alaska Native Claims Settlement Act designates the entire state of Alaska as tribal lands.⁸ The lack of robust broadband threatens to strand Alaska's native population on the wrong side of the digital divide. The majority of member-owners and customers served by OTZ Telephone Cooperative, as well as its Board of Directors, are Inupiat Eskimos. The significant tribal composition of the area makes OTZ a tribal carrier in every sense, although current FCC rules preclude OTZ from taking advantage of tribal benefits including bidding credits.

OTZ plays an important role in the communities in which it provides service.⁹ Villages depend on OTZ for critical technical support and maintenance of wireline and broadband services.

⁴ See OTZ 2013 Annual Report for specific information regarding OTZ's service area. Available at http://www.otz.net/annual_reports/OTZ_2013_AR_Final.pdf, and attached.

⁵ The approximate population of the villages in OTZ's study area are as follows: Selawik, 797; Noorvik, 654; Noatak, 514; Buckland, 419; Kiana, 400; Kivalina, 388; Ambler, 320; Shungnak, 265; Deering, 140; and Kobuk, 112.

⁶ See US Census Bureau, *Alaska QuickFacts from the US Census Bureau*, <http://quickfacts.census.gov/qfd/states/0200.html>.

⁷ Federal Communications Commission, *Lands of Opportunity: Bringing Telecommunications Services to Rural Communities*, <http://transition.fcc.gov/indians/opportunity.pdf> at 4.

⁸ The Alaska Native Claims Settlement Act set up 13 regional corporations plus 200 village corporations, which creates a daunting task of coordinating between the parties for soliciting input. See 47 U.S.C. §§ 1601-1624.

⁹ See History of OTZ, available at http://www.otz.net/history_co-op.html. "The company introduced its own Internet service in 1996 and was the first rural Alaskan telecommunications company to provide high-speed Internet access to all the communities in Northwest Alaska. OTZ also invested in the infrastructure it takes to provide cellular service, first in Kotzebue and then starting to expand service to the villages." *Id.*



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OTZ's wireless service provides a 20-mile umbrella around the villages it serves, which represents a crucial safety net given the harsh climate and lack of roads connecting the villages.¹⁰

OTZ is proud to work with the Alaska Telephone Association to craft a policy solution to deliver broadband to all Alaskans. We are optimistic that working together, Alaska carriers can reach a compromise and convince the FCC to provide adequate funding. OTZ appreciates the opportunity to discuss its issues with the staff. We remain optimistic that it is not too late to make sure that small, rural communities receive critical support to keep Alaskans from being stranded on the wrong side of the digital divide.

Sincerely,

A handwritten signature in blue ink that reads "Shannon M. Heim". The signature is written in a cursive, flowing style.

Shannon M. Heim

SMH/bh
Enclosures

¹⁰ See Letter from Shannon M. Heim to Marlene H. Dortch, Secretary, Federal Communications Commission, WC Docket No. 10-90 (Filed Nov. 21, 2013) ("*OTZ Ex Parte*") at 3.



SHANNON M. HEIM
(612) 340-8899
FAX (612) 340-8800
heim.shannon@dorsey.com

November 21, 2013

Ex Parte Notice

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Connect America Fund*, WC Docket No. 10-90

Dear Ms. Dortch,

On November 13, 2013, Doug Neal from OTZ Telephone Cooperative, Susan Hardenbergh from AKT and I met with Dan Alvarez, Chairman Wheeler's Legal Advisor and the following Wireline Competition Bureau staff: Joe Sorresso, Chris Koves, Victoria Goldberg, Katie Hinton, Eric Ralph and Deena Shetler. Later that afternoon we met with Jane Jackson and Patricia Robbins from the Wireless Telecommunication Bureau.

Our conversation focused on the financial hardship facing OTZ Telephone Cooperative (local telephone) and its subsidiary, OTZ Telecommunications (wireless), collectively OTZ, following the *Transformation Order* reforms. Included with this letter is the presentation that guided the conversation as **Attachment A**. OTZ also provided a copy of its Annual Report to illustrate the tribal nature of its community and business. It is included as **Attachment B**.

OTZ is a member-owned cooperative serving Kotzebue (population 3,237), ten small native villages and the Red Dog Mine. This relatively low population base is spread over a service territory the size of Indiana. None of the villages served by OTZ are on the road system which makes them accessible only by boat, airplane or snow machine, depending on the season. OTZ's Board of Directors, employees and member-owners are overwhelmingly Inupiat Eskimo. The significant tribal composition of the area makes OTZ a tribal carrier in every sense, although current FCC rules preclude OTZ from taking advantage of tribal benefits including bidding credits.

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The *Transformation Order* reformed the allocation of high cost support.¹ Rural carriers have expressed uniform concern with falling revenues from these reforms to high cost support.² OTZ and other Alaska carriers have felt the impact of dwindling high cost support more acutely than most carriers given the great needs of Alaska, particularly in remote areas, for financial assistance to provide telecommunications services to geographically diverse areas with low population density.

The cuts in high cost support have combined to place OTZ in a financially precarious position. Doug Neal shared photos of the city building in the Village of Shungnak where OTZ's local switch is housed. The building is literally falling down, but there is no funding to build a new facility or relocate the equipment. OTZ provided the Commission a summary graph in its presentation representing OTZ's consolidated operating data. OTZ provided further financial data supporting the graph and it is included as **Attachment C**. According to the data provided by OTZ, by 2016 it will be operating at a net loss and unable to continue to provide service.

Due to the diminishing prospect of a reliable revenue stream, OTZ had to refuse a substantial RUS loan to build out its wireless service to the remaining villages in its service area. Mr. Neal's letter to RUS is included as **Attachment D**. The imminent loss of Identical Support (phase down is scheduled to begin in Alaska in 2014) coupled with

¹ See Connect America Fund, WC Docket No. 10-90, A National Broadband Plan for our Future, Docket No. 09-51, Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135, High-Cost Universal Service Support, WC Docket No. 05-337, Developing an Unified Intercarrier Compensation Regime, CC Docket No. 01-92, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Lifeline and Link-Up, WC Docket No. 03-109, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011) ("*Transformation Order*").

² See, e.g., *Comments of Alaska Rural Coalition in the matter of Connect America Fund*, WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) ("*ARC USF Comments*"); *Comments of the Nebraska Rural Independent Companies In Response to Wireline Competition Bureau Request For Comment on Model Design and Data Inputs for Phase II of the Connect America Fund*, in the matter of Connect America Fund, WC Docket No. 10-90, Docket No. 05-337, before the FCC (July 9, 2012) ("*Nebraska Comments*"); *Comments of Alaska Communications Systems, Inc., in the matter of Connect America Fund*, WC Docket No. 10-90 (Mar. 11, 2013) at 3-4 ("*ACS Comments*") ("ACS, like other price cap carriers, would face significant increases in its costs of service to deploy, operate, and maintain the facilities necessary to deliver broadband meeting the Commission's CAF Phase II standards throughout its service area covered by CAF Phase II support. ACS would be unable to meet these service commitments based on its current level of legacy support, let alone the sharply reduced levels of support currently suggested by recent CACM model results.").

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the unlikelihood that OTZ, or any small Alaska carrier, will obtain support from the Mobility Phase II or Tribal Mobility Phase II process made it impossible for OTZ to commit to a loan without a predictable means of repaying it.

We discussed the decreasing high cost revenue with the Wireline Competition Bureau. There was a robust give and take to quantify OTZ's decrease in revenue attributable to Intercarrier Compensation. Our presentation included a graph demonstrating that the majority of funding available to OTZ is controlled by the FCC. Eric Ralph, the Wireline Competition Bureau's Chief Economist suggested that specific data supporting that graph be forwarded to Joe Sorresso. We will file a separate ex parte detailing that information.

In our discussion with the Wireless Telecommunications Bureau, we emphasized the important role OTZ plays in the communities in which it provides service. Villages depend on OTZ for critical technical support and maintenance of wireline and broadband services. OTZ's wireless service provides a 20-mile umbrella around the villages it serves, which represents a critical safety net given the harsh climate and lack of roads connecting the villages. We discussed the inability of OTZ and other small Alaska carriers to capture support in the Mobility Phase II or Tribal Mobility Auctions due to the barrier of a Letter of Credit and the inherent nature of a reverse auction to preclude the highest cost areas with low populations. We also discussed a potential waiver of the phase down of Identical Support for OTZ until replacement funding mechanisms are better established.

Without Commission intervention, Alaska consumers in OTZ's service area will face significantly reduced service. OTZ discussed several opportunities for regulatory relief. First, we suggested that allowing companies to recover increasing corporate expenses attributable to regulatory compliance. Second, delaying the phase down of identical support in Alaska would provide a critical reprieve as other sources of mobility funding are assessed by companies and regulators. Third, OTZ would benefit from a delay in the phase down of access charges and building inflation into the calculation. Next, OTZ expressed support for the Alaska carve out advocated by the Alaska Rural Coalition (from the Remote Areas Fund) and by GCI (from the Mobility Fund). Without an infusion of capital into Alaska, the networks relied upon by all Alaskans will suffer from inadequate support and service quality and availability will diminish. Finally, OTZ is precluded from participating in the reverse auction mechanism intended to distribute needed support for wireless businesses in high cost areas. To participate in either the Mobility Phase II or Tribal Mobility Phase I or II auctions, carriers must procure and produce an irrevocable Letter of Credit.³ OTZ explained that as a RUS borrower, it is

³ *Transformation Order* at para. 444.

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impossible for it to obtain a Letter of Credit to participate in the process. OTZ also requested support for an expansion of the tribal bidding credit to include cooperatives like OTZ who are majority owned and operated by native Alaskans. The creation of an Alaska bidding credit would also substantially improve the likelihood of Alaska carriers participating in the Mobility auctions and obtaining the support they desperately need.

We also discussed the issue of how to characterize an unsubsidized competitor in Alaska. Carriers serving remote, high cost areas in Alaska can ill afford a further reduction of support. It is critical that the Commission take a broad view of what constitutes a subsidy when determining whether an area is served by an unsubsidized competitor. OTZ is the only provider of landline and broadband capable services in the villages. To deny OTZ support because GCI will not, after phase out of identical support, be receiving this specific type of universal service funding is to deny the larger reality: GCI receives millions of dollars of support through E-rate and Rural Healthcare and freely admits to cross-subsidizing other projects. To deny OTZ critical support to serve rural villages while GCI continues to receive extensive support for service to Kotzebue's anchor institutions would expedite the financial collapse of OTZ that we discussed.

OTZ appreciates the opportunity to discuss its issues with the staff. We remain optimistic that it is not too late to slow down the process and make sure that small, rural telecommunications carriers receive critical support. We look forward to working with the Commission to address these issues.

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter and our attachments are being filed via ECFS. If you have any questions or I may be of assistance, please do not hesitate to contact me.

Regards,

Shannon M. Heim
Counsel for OTZ Telephone Cooperative and
OTZ Telecommunications

c: Dan Alvarez
Joe Sorresso
Chris Koves
Victoria Goldberg
Katie Hinton

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Eric Ralph
Deena Shetler
Jane Jackson
Patricia Robbins
Doug Neal
Susan Hardenbergh

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

In the Matter of)
)
Connect America Fund)

WC Docket No. 10-90

COMMENTS OF THE ALASKA RURAL COALITION

Shannon M. Heim
Elizabeth Gray Nuñez
Dorsey & Whitney LLP
1031 West 4th Avenue, Suite 600
Anchorage, AK 99501
(907) 276-4557

50 S. Sixth Street, Suite 1500
Minneapolis, MN 55402
(612) 340-8899

Counsel for the Alaska Rural Coalition

March 31, 2014

I. Introduction.

The Alaska Rural Coalition (“ARC”) files Comments in this proceeding pursuant to the *Order and Further Notice of Proposed Rulemaking* (“FNPRM”) issued by the Federal Communications Commission (“Commission”) on January 31, 2014 announcing and seeking comment on voluntary Service-Based Experiments for rural areas.¹ The ARC commends this effort by the Commission to deploy broadband in rural areas and gather data on best practices for future deployment and support mechanisms.² As the Commission recognized in the FNPRM, rural areas present many challenges for service providers and require specific and innovative solutions and funding in order to “make sure that rural Americans are not left behind.”³ The ARC believes that the flood of Expressions of Interest from rural service providers demonstrates rural areas’ hunger for robust and affordable broadband infrastructure and illustrates the need to direct greater high-cost support to these communities.

The ARC membership consists of essentially all of the Rate of Return (“RoR”) incumbent rural local exchange carriers (“RLECs”) in Alaska, who share unified interests regarding the Rural Broadband Experiments and how they will affect future distribution of support for rural areas. Many ARC companies have submitted Expressions of Interest for Rural

¹ See *Order, Report and Order and Further Noticed of Proposed Rulemaking, Report and Order, Order and Further Notice of Proposed Rulemaking, Proposal for Ongoing Data Initiative*, GN Docket No. 13-5, GN Docket No. 12-353, WC Docket No. 10-90, CG Docket No. 10-51, CG Docket No. 03-123, WC Docket No. 13-97 (Jan. 31, 2014) (“FNPRM”).

² See FNPRM at paras. 92-93.

³ FNPRM at paras. 87-88 (recognizing that rural areas are geographically dispersed, with low population density, and that service providers in rural areas must cope with “geographical and topographical challenges, extreme seasonal and meteorological conditions, a higher percentage of elderly residents, and a disproportionate number of low-income Americans”).

Broadband Experiments.⁴ The ARC companies serve small communities in the remote, extremely rural high cost areas of Alaska. These carriers depend on ongoing high-cost support to offer robust, affordable services to their rural customers. The ARC members continue to be concerned that reductions in support will leave them without the funds and infrastructure necessary to meet the Commission’s service benchmarks now and in the future.⁵ The

⁴ See *Copper Valley Telephone Cooperative, Inc. Expression of Interest RE: Connect America Fund*, WC Docket No. 10-90; *Technology Transitions*, GN Docket No. 13-5 (Mar. 5, 2014); *City of Ketchikan d/b/a KPU Telecommunications Expression of Interest Re: WC Docket No. 10-90* (Mar. 6, 2014); *Matanuska Telephone Association Expression of Interest—Rural Trials*, Docket No. 10-90 (Mar. 7, 2014); *OTZ Telephone Cooperative, Inc., WC Docket No. 10-90 Expression of Interest in Rural Trials* (Mar. 10, 2014).

⁵ See *Connect America Fund*, WC Docket No. 10-90, A National Broadband Plan for our Future, Docket No. 09-51, Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135, High-Cost Universal Service Support, WC Docket No. 05-337, Developing an Unified Intercarrier Compensation Regime, CC Docket No. 01-92, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Lifeline and Link-Up, WC Docket No. 03-109, *Report and Order and Further Notice of Proposed Rulemaking*, FCC 11-161 (rel. Nov. 18, 2011) (“*Transformation Order*”) at para. 101, n. 158 (“Even if the modest speeds of 4 Mbps down/1 Mbps up are adopted by the FCC as target throughput speeds, substantial construction of terrestrial facilities and expansion of satellite capacity will be needed to create the backhaul capability that will be necessary to deliver broadband at those speeds in Alaska.”); see also *Comments of Alaska Communications Systems Group, Inc., in the matter of Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996, as Amended by the Broadband Data Improvement Act*, before the FCC, GN Docket No. 12-228 (Sept. 20, 2012) (“*ACS GN Comments*”) at 2 (“In Alaska, nearly 49 percent of rural residents lack access to broadband. Inadequate funding is the primary reason.” (citing *Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996, as Amended by the Broadband Data Improvement Act*, Eighth Broadband Progress Report, GN Docket No. 11-121, FCC 12-90, P. 1 (rel. Aug. 21, 2012) (“*Eighth Broadband Progress Report*”))); *Comments of Alaska Communications Systems, Inc., in the matter of Connect America Fund*, WC Docket No. 10-90 (Mar. 11, 2013) at 3-4 (“*ACS Mar. 11 Comments*”) (“ACS, like other price cap carriers, would face significant increases in its costs of service to deploy, operate, and maintain the facilities necessary to deliver broadband meeting the Commission’s CAF Phase II standards throughout its service area covered by CAF Phase II support. ACS would be unable to meet these service commitments based on its current level of legacy support, let alone the sharply reduced levels of support currently suggested by recent CACM model results.”).

Commission's announcement of Rural Broadband Experiments for RoR carriers is encouraging, but such experiments must be carefully structured to ensure that they provide the best data possible and do not inadvertently jeopardize the already uncertain future of carriers in our nation's remotest areas.

II. The ARC Encourages the Commission to Maximize Its Investment And Include Rural Alaska In Projects Selected for Funding.

Broadband and other telecommunications services are especially critical for customers in Remote Alaska, where the benefits of broadband access have the potential to strengthen village economies and overall quality of everyday life.⁶ High-speed broadband access is even more important in Alaska than in the Lower 48 because of many communities' remote, isolated nature.⁷ The full benefits of broadband will not be realized in rural Alaska without funding

⁶ *Comments of the Alaska Rural Coalition*, GN Docket No. 12-228, before the FCC (Sept. 20, 2012) (“*ARC Broadband Standards Comments*”) at 3 (“The remote nature of these unserved locations in Alaska means that their residents have the greatest need for advanced telecommunications, especially regarding vital services like emergency response, telemedicine and distance learning.”); *see, e.g.*, Kim Severson, *Digital Age is Slow To Arrive in Rural America*, N.Y. Times, (February 17, 2011), available at http://www.nytimes.com/2011/02/18/us/18broadband.html?pagewanted=all&_r=0 (“In rural America, only 60 percent of households use broadband Internet service.”); *see also Alaska Rural Telehealth Network*, <http://www.nrtrc.org/about/network-profiles/artn/> (last visited Sept. 13, 2012) (“In Alaska, the healthcare workers practicing in hospitals, clinics, and community health centers are essential to the delivery of acute and primary care services to small, rural, and remote communities. Although the majority of Alaska's population is located outside the greater Anchorage area, the majority of healthcare providers in Alaska (e.g., physicians, PAs, RNs, physical therapists) are located in its three largest cities. As a result, rural clinicians practice in a generalist's environment, but where they often need to have specialty knowledge and expertise. This dichotomy is further complicated when you consider the limited opportunities for continuing education and access to specialty consultations available because of travel costs, geographical and weather restrictions, and a general lack of or inability to arrange for clinical coverage during absences.” *Id.*

⁷ *Comments of the Regulatory Commission of Alaska, in the matter of Connect America Fund, et. al.*, WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) (“*RCA Comments*”) at 5 (“Yet there is no place in America that can benefit more from the promise of advanced telecommunications. Broadband can make a difference to

targeted at building out the terrestrial middle mile facilities necessary to support robust and reliable high-speed connections.⁸ The ARC urges the Commission to select at as many as possible, but no fewer than one project from Alaska for Rural Broadband Experiment funding in order to provide the Commission with critical data and experience with the unique circumstances of telecommunications carriers serving “extreme rural” areas.⁹ To facilitate the inclusion of Alaska carriers, the ARC urges the Commission to prioritize remote and Tribal areas.

The Commission indicated in the FNPRM that it seeks to test the assumption that “the geographic and demographic characteristics of certain rural areas...economically preclude the deployment of high-capacity fiber-based services that deliver higher speeds to those communities, absent some level of governmental support.”¹⁰ The ARC believes that the enormous interest in Rural Broadband Experiment participation demonstrates that there are many

the remote parts of Alaska beyond what it can anywhere else in the country. Broadband is the modern thoroughfare of Alaska’s future. It will allow a medical doctor to traverse the wilderness between Anchorage and Kotzebue in moments. It will allow an Alaska Native to work for a California high technology firm without ever leaving his subsistence lifestyle behind. It will allow economic development to flow freely between the world outside and our rural communities.”).

⁸ Comments of the Alaska Rural Coalition Concerning the Remote Areas Fund, WC Docket No. 10-90, before the FCC (Feb. 19, 2013) at 7-13, and at 7 (“Assigning a portion of the Remote Areas Fund to address the lack of middle mile in Alaska would bring real and sustainable change to the broadband map by completing the already in place, cost-effective last-mile infrastructure that is already capable of delivering broadband services.”); *Comments of General Communication, Inc. On Design of the Remote Areas Fund, WC Docket No. 10-90, before the FCC (Feb. 19, 2013)* at 4 (“In Alaska, the key to maximizing broadband-deployment benefits is directly or indirectly (through supporting ETC capacity purchases) supporting the continued development and deployment of middle-mile facilities capable of sustaining both mass-market and community anchor tenant broadband services.”).

⁹ See Rhonda McBride, “FCC Chairman Sees Rural Realities in Southwest Alaska,” KTUU.com, available at http://articles.ktuu.com/2011-08-29/fcc-chairman-julius-genachowski_29943392 (“[Alaska] is not like any other community (in the Lower 48). You can’t get to it. You can’t drive to it. You need to create this access,” said Begich, who later told a state task force on broadband access that there needs to be a new definition of rural for communities that are off the road system. Begich says he calls it “extreme rural.”).

¹⁰ FNPRM at para. 94.

providers, both incumbent and non-incumbent, with the skills and knowledge to successfully deploy high-speed broadband in rural areas, but who have been unable to do so because of lack of funding to build large-scale fiber projects. The record in this proceeding demonstrates that satellite technologies are not capable of providing the robust connections necessary to deliver the full promises of broadband access in Alaska, while very few providers in rugged and remote areas have access to the capital necessary to build out fiber infrastructure to their communities.¹¹ Rather than demonstrating that fiber deployment is possible in rural areas without governmental support, the ARC believes that the Rural Broadband Experiments already demonstrate the voracious need for governmental support to deploy infrastructure in rural areas.¹²

The ARC supports the Commission's proposal to direct a limited amount of unallocated funding in the Connect America reserve fund towards Rural Broadband Experiments for both

¹¹ See *GCI Comments* at fn. 9; *GCI USF Comments* at 5 (“Advanced telemedicine, distance learning, and other many enterprise broadband services will require the deployment of terrestrial middle-mile facilities: satellite services cannot support applications that tolerate only very low latency.”); and at 26 (“Satellite capacity is also extremely expensive and non-scalable; satellite costs rise directly in proportion to capacity needs. Therefore, unless terrestrial middle-mile networks can be built, the cost to the USF will continue to rise as consumers’ demand increases. The only alternative would be to either increase the cost to consumers—which would likely render rates unaffordable and not reasonably comparable to urban areas—or render the services not reasonably comparable due to much lower amounts of included usage than in urban areas.”); see also Abhishek Shukla, 7 Reasons Why Tablets or Smart phones Can't Replace Laptops, TECHiFire (Jan. 16, 2012), <http://www.techifire.com/gadgets/phones/7-reasons-why-tablets-or-smartphones-cant-replace-laptops/>. For reasons the ARC has previously explained to the Commission, Alaska's relatively extreme latitude and weather mean that satellite broadband will be an inadequate solution to providing its rural areas broadband service. See also *ARC USF Comments* at 25 (“Satellite service is notoriously unreliable in Alaska for many reasons including inclement weather and geographic limitations based on line of sight.”) and at 32 (“Unfortunately, providing the speed, latency or capacity required by the Commission for CAF support for satellite service is not yet capable in most areas of Alaska.”); *ACS USF Comments* at 8.

¹² See *supra* note 4. The largest terrestrial middle mile project in Alaska, TERRA, was made possible by substantial federal funding.

price cap and rate of return areas.¹³ Given the strong interest in the program and great need for fiber deployment to reach rural citizens, it makes sense for the Commission to distribute unallocated Connect America funding rather than continuing to hold those funds in reserve. The ARC believes that the Commission will receive the best return on its investment in the Rural Broadband Experiments if a wide and diverse variety of projects are funded through the Experiment program, and therefore supports the allocation of at least \$100 million or more in reserve funding to this endeavor.¹⁴ The ARC supports apportioning funding for both recurring and non-recurring support, and for both price cap and RoR areas. Many Alaska parties have expressed their concerns that CAF high-cost support will not provide RoR carriers with the support they need to build out the middle mile infrastructure necessary to meet the Commission's speed and latency benchmarks for broadband services.¹⁵ In Remote Alaska and other extremely rural areas, additional federal funding directed at deploying large-scale infrastructure will be necessary to provide robust high-speed broadband that keeps pace with the evolution of technology.¹⁶ While the Rural Broadband Experiments cannot fully meet this need, the ARC is

¹³ *FNPRM* at para. 203.

¹⁴ *Id.* at para. 204.

¹⁵ *ACS USF Comments* at 8 (“The Commission’s model ignores the costs of extremely long haul middle mile transport in Alaska, especially by satellite and undersea cable, which are necessary to support delivery of the broadband speeds mandated by the Commission.”); *Comments of General Communication, Inc. in the matter of Connect America Fund*, WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) at 28 (“As discussed above, middle-mile costs will be a significant (but not the only) component of the high costs of delivering any type of broadband – whether fixed or mobile – to Remote Alaska...middle mile is an essential component of providing affordable and reasonably comparable broadband services to rural Alaska, and of creating a communications infrastructure that can support critical public health, education and safety needs.”); *RCA Comments* at 19 (“Funding for middle mile infrastructure is essential to deployment of broadband in Alaska.”).

¹⁶ *Comments of Alaska Rural Coalition in the matter of Connect America Fund*, WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No.

optimistic that the experiments can provide a model for a future replacement for the now-eliminated safety net additive, and encourages the Commission to create such a replacement.

The ARC urges the Commission to work with state regulatory authorities when distributing Experiment funding to ensure that other carriers are able to access Rural Broadband Experiment-built networks on a wholesale basis at reasonable rates. The ARC proposes that a condition of accepting Experiment funding should be an agreement to offer other carriers regulated, reasonable access to new facilities built with public funds. Building out infrastructure in rural areas will only promote competition and foster further economic development in distressed communities if a wide variety of parties, not only the party building the facilities, has access to these new high-speed networks.

III. The ARC Supports the Commission’s Priorities for Experiments, But Believes the Process Must Be Carefully Structured.

The Commission has identified important priorities and concerns in the methodology it has developed for the Rural Broadband Experiments. The ARC generally supports the structure of the Commission’s methodology, and offers comment on several specific aspects of the program. The Commission seeks comment on whether the Commission should provide incumbent RoR carriers an initial window to submit applications for the experiment in advance of other parties, and whether the Commission should allow the RoR carrier to undertake the

01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) (“*ARC USF Comments*”) at 4-5 (“Access to Affordable Middle Mile is Critical to Extend Broadband into Remote Areas of Alaska...The *CAF Order* recognizes that many areas of Alaska lack the viable backhaul options necessary to provide broadband services.”); *GCI’s Comments Regarding the FCC’s Notice of Proposed Rulemaking in the matter of Investigation into the Impact on Alaska Consumers and Carriers of Universal Service Reform by the Federal Communications Commission*, Docket No. R-10-03, before the Regulatory Commission of Alaska (Dec. 30, 2011) at 8 (“In rural Alaska, the most significant barrier to higher speed broadband services of any type - wireline or wireless - is the lack of sufficient broadband middle-mile that has the capability to expand with demand. Satellite capacity is limited and will not grow cost-effectively as demand expands.”).

same deployment proposed by a non-incumbent for the same or lesser support.¹⁷ The ARC supports both of these proposals. It is important that the Rural Broadband Experiment process not disrupt or overbuild the networks already in place in remote and rural areas, where incumbent RoR carriers have already built the last-mile and local networks that will be critical to deploying broadband to end-user customers. The ARC believes that RoR RLECs have the best experience with network construction and maintenance in their service areas, and best know how to structure services to optimize service availability and quality. Finally, RoR carriers already have significant public interest obligations associated with their ETC status and state regulatory requirements. Allowing RoR carriers to “match” proposals submitted by non-incumbent entities avoids the possibility of investment dilution among several competing entities serving a rural area and provides the companies who are best equipped to serve these communities with the opportunity to do so.

The Commission seeks comment on whether the current Phase II cost model could be used to identify places in RoR areas that should be eligible for Rural Broadband Experiment support. The ARC and other rural parties have amply described the cost model’s inaccuracy and inadequacy in capturing Remote Alaska and other rural areas for the record, so the ARC is skeptical that the cost model should represent the authority on whether an area is eligible for Rural Broadband Experiment support.¹⁸ The ARC proposes that the Commission use the cost

¹⁷ *FNPRM* at para. 207.

¹⁸ *See, e.g., Comments of Alaska Communications Systems, Inc. in the matter of Connect America Fund*, WC Docket No. 10-90 (Jan. 9, 2013) at 6-7 (“*ACS Comments*”) (“[i]dentifying] 1991 census blocks that are correctly listed as unserved, but that do not appear in the data set of unserved census blocks available for download from the National Broadband map web site.”); *Comments of the National Telecommunications Cooperative Association, The National Exchange Carrier Association, Inc., The Organization for the Promotion and Advancement of Small Telecommunications Companies, and the Western Telecommunications Alliance, in the matter of Connect America Fund*, WC Docket No. 10-90 (Jan. 9, 2013) at 3 (“[The data must be]

model as one of several methods of identifying eligible rural areas, and cautions that the cost model must not be the exclusive means of determining an area's eligibility for Experiment funding. While the cost model may accurately capture the rural areas best suited for Experiment funding in parts of the Lower 48, other measurements including but not limited to population density, percentage of Tribal population, and access to the road systems must be used to assess an area's eligibility in Alaska. Similarly, because census tracts/boroughs can be extremely large in Alaska and other Remote Areas, the ARC supports the Commission's proposal to accept RoR carriers' applications at the census block level rather than the census tract level.¹⁹ Narrowing the geographic footprint of a proposal will maximize the benefit of the investment.

The Commission seeks comment on the potential selective factors it has identified for selection of Experiments.²⁰ The ARC agrees that cost-effectiveness, robustness and scalability of networks, and the extent to which Tribal lands will be offered high-capacity services are all

subjected to thorough review, data-driven (re)calibration, and vigorous procedural safeguards before being used in any form or format to eliminate, reduce, or otherwise modify USF support.”); *ARC Unserved Census Block Reply Comments* at 5 (“This data is simply too important, both to the survival of rural carriers and to the future deployment of voice and broadband services to unserved areas, to be determined only through a 30-day comment cycle. Future telecommunications deployment for citizens in rural and remote areas cannot be determined based on data that is widely acknowledged to contain significant factual errors.”). The ARC remains concerned about potential application of the price cap cost model to RoR companies. See *Reply Comments of the Alaska Rural Coalition in the matter of Connect America Fund*, WC Docket No. 10-9, WC Docket No. 05-337 (July 23, 2012) at 4-8 (“The ARC concurs with other commenters that the application of the CAF Phase II cost model to RoR companies will undermine basic and advanced telecommunications in rural areas. The CAF Phase II cost model was intended by the Commission to apply to Price Cap carriers.”).

¹⁹ See *Transformation Order* at para. 347. “In Alaska, the average census block is more than 50 times the size of the average census block in the other 49 states and the District of Columbia, such that the large size of census areas poses distinctive challenges in identifying unserved communities and providing service.” *Id.*

²⁰ *FNPRM* at paras. 211-216.

important criteria for Experiment selection.²¹ The ARC is concerned that it will be difficult to compare cost-effectiveness and robustness/scalability across projects aimed at areas with significantly different costs of construction and service. For example, due to Alaska's high costs of materials and labor and short construction season, a project in Alaska will always likely face substantially higher costs than a project in the Lower 48.²² When the Commission selects projects for the Rural Broadband Experiments, it should prioritize areas with the greatest need, not areas with the lowest costs of buildout.

The ARC offers several proposals to address these issues with measuring proposals' cost-effectiveness. First, the ARC proposes that the Commission incorporate an additional measure of cost-effectiveness and project robustness/scalability that incorporates the degree of improvement in services that a project could bring to an area. A project that will take a rural area from low-speed DSL services to the Commission's 4/1 Mbps benchmarks, for example, should be given more weight than a project that takes an area from existing 4/1 service to higher speeds and better latency. The Commission should incorporate this "degree of improvement" measure into its metric for cost-effectiveness in order to better capture the overall worth of the project to its area in relation to the project's costs.

Because project needs and costs vary so greatly by region, the ARC also suggests that the

²¹ See *id.*

²² The U.S. Department of Agriculture's Forest Service also recently emphasized the unique costs of conducting business in Alaska. The Forest Service explained that in "order to manage national forests in Alaska to a standard consistent with the rest of the agency, 'unit cost funding' for the Alaska Region must be higher than regions in the Lower 48." Specifically, "[h]igher salaries, higher cost of materials and supplies, and higher transportation costs all combine to increase our unit costs of providing goods and services to our customers and reduce the portion of our budget we can "get to the ground." See U.S. Forest Service, *Cost of Doing Business in Alaska* (April 2012), available at <http://www.fs.usda.gov/Internet/FSE.../stelprdb5252557.pdf>; see also *Northwest Arctic Regional Energy Summit Report*, "Findings," available at http://apps1.eere.energy.gov/tribalenergy/pdfs/nana_strategic%20planning_final_report_first_steps.pdf at 2 ("Construction season is short and construction costs are higher.").

Commission consider grouping project proposals geographically, and basing its evaluations of project cost-effectiveness on comparisons between projects located in the same region of the country, rather than comparing projects against one another nationwide. Evaluating projects that are similarly situated geographically against one another will lead to fairer results, a greater geographic diversity of project builds, and a more effective determination of a project's true cost-effectiveness. Finally, since the area in which a project is located may be the most important factor affecting whether the project developers seek one-time or recurring funding for the build, the Commission should not use the difference between requests for one-time or recurring funding as a selective factor for the Rural Broadband Experiments.²³

While the ARC fully supports cooperation between carriers and non-Federal sources of funding, the ARC is concerned about this proposed metric for evaluating Rural Broadband Experiments. Often states or localities with the greatest need for broadband deployment are the places least likely to have state and local sources of funding available for such cooperation. It does not make sense to penalize areas with the greatest needs for broadband in the Experiment selection process because they lack alternative sources of funding to supplant Federal support. The ARC generally supports the importance of partnership between carriers and non-federal government and organizations, such as (for ARC members) the Regulatory Commission of Alaska and the Alaska Broadband Taskforce. However, the ARC is concerned that only projects proposed in wealthier states and municipalities that are able to contribute funds will be able to

²³ For example, Alaska's construction season is so short that it is extremely unlikely that a project could be built in one year with one-time funding. See Richard Seifert, University of Alaska Fairbanks Cooperative Extension Service, *Permafrost: A Building Problem in Alaska*, HCM-00754, available at <https://www.uaf.edu/files/ces/publications-db/catalog/eeh/HCM-00754.pdf> at 1 ("Constructing buildings in Alaska requires specific knowledge about permafrost and specialized building techniques. Disturbing permafrost carelessly may cause melting, resulting in uneven founding settling and disastrous consequences for the building. It is not always possible to safely build on permafrost.").

satisfy this selection factor.²⁴ This would have the adverse effect of diverting Experiment funds from rural areas with greater low-income populations and would not ultimately advance the Commission's goal of universal service.

The ARC strongly supports the Commission's proposal to give weight to whether applicants propose to offer high-capacity services to Tribal lands, and believes that the Commission should accord this factor significant weight.²⁵ The Commission has recognized that Tribal communities are significantly underserved by next-generation telecommunications services, as evidenced by its adoption of the Tribal Mobility Fund and other mechanisms directed at deploying broadband to Tribal lands.²⁶ The promises of broadband access on Tribal lands mean that the Commission should accord whether a project proposes to serve Tribal lands or customers equal weight as the project's cost-effectiveness and robustness/scalability.

The ARC supports the Rural Broadband Experiments' model of leveraging local providers' and local government expertise about their service areas and customers, particularly for communities in Remote Alaska and other extremely rural areas.²⁷ The ARC cautions the Commission, however, that Tribal governments are not centralized in Alaska as they are in the

²⁴ The short schedule for Rural Broadband Experiments anticipated by the Commission will also make it difficult to obtain state and local funding sources. While partnership with state and local entities should be encouraged, it should not be used as a selection factor for projects.

²⁵ *FNPRM* at para. 216.

²⁶ When establishing the Tribal Mobility Fund Phase I, the Commission concluded that apportioning additional support for unserved Tribal lands is necessary because of the "special challenges involved in deploying mobile broadband on Tribal lands." *Transformation Order* at para. 482; *see also Transformation Order* at para. 479 ("[T]he Commission acknowledged the relatively low level of telecommunications deployment on Tribal lands and the distinct challenges in bringing connectivity to these areas. The Commission observed that communities on Tribal lands have historically had less access to telecommunications services than any other segment of the population. The *Mobility Fund NPRM* also noted that Tribal lands are often in rural, high-cost areas, and present distinct obstacles to the deployment of broadband infrastructure.").

²⁷ *FNPRM* at para. 97.

Lower 48, but rather consist of many small villages scattered throughout remote parts of the state.²⁸ While none of the ARC companies are affiliated with Tribal government, many of the ARC companies' are cooperatives with elected boards composed of majority Native Alaskan citizens, and many of the ARC members serve primarily Native Alaskan customers.²⁹ The ARC believes that, in order to include Native Alaskan citizens in the benefits of the Rural Broadband Experiments, providers who serve predominantly Native or Tribal customers or communities should benefit from the priority given to projects explicitly developed with Native input.

Finally, the ARC strongly supports the role of diversity in terms of project geography and technologies in the selection process for the Rural Broadband Experiments.³⁰ The Commission will reap the best data and knowledge for the future from funding a wide variety of projects across technology platforms and across the country. The ARC further suggests that, given the ongoing issues with high-cost support funding and middle mile deployment specific to the state of Alaska, the Commission consider selecting as many as possible, but no fewer than one Alaska project for funding. The ARC believes that tangible experience with project funding and buildout in Alaska will provide the Commission with invaluable knowledge of how to proceed with high-cost funding and overall broadband deployment in the state that is necessary to bring universal service to its citizens.

²⁸ *Transformation Order* at P. 125, n. 197. *See also* 47 C.F.R. §§ 1.2100 and 54.400(e) (defining tribal lands to include "Alaska Native regions established pursuant to the Alaska Native Claims Settlement Act").

²⁹ *See, e.g., Ex Parte Notice re: Connect America Fund, OTZT Telephone Cooperative, Inc.* (Nov. 21, 2013) ("*OTZT 2013 Ex Parte*"). All of OTZT's Board members, nearly all of its members, and the vast majority of OTZT's employees are Inupiaq Eskimo.

³⁰ *FNPRM* at para. 217.

IV. The Commission Has Identified Key Additional Considerations for the Rural Broadband Experiments.

The Commission seeks comment on the specific numerical measure that it should use to determine whether the extent of competitive overlap in an eligible area is *de minimis*.³¹ The ARC recognizes that it is important to minimize funding projects in areas in which services are already available, but believes that very few eligible rural areas will raise this concern. The ARC proposes that the Commission consider there to be competitive overlap in an area where a competitor provides at least 25% geographic overlap, offering the same level of services as the proposed Experiment. This metric properly evaluates whether the competitor truly offers services that are competitive to the Experiment proposal, while ensuring that duplicative infrastructure is not built.

The Commission seeks comment on whether to limit the amount of support available in census tracts where the average cost per location is higher than the preliminary extremely high cost threshold to the amount per location equal to that preliminary extremely high cost threshold.³² The ARC believes this proposal will not advance the Commission's goals of universal service in remote and extremely high-cost areas.³³ Some areas of the country, including parts of Remote Alaska, have construction and maintenance costs that far exceed the vast majority of the U.S. These locations are few and far between, so the ARC recommends that the Commission evaluate the amount of funding that should be available in extremely high-cost areas based on comparisons of the costs in proposals submitted by entities serving those locations. If the average proposal cost far exceeds the extremely high-cost threshold for a

³¹ *FNPRM* at para. 219.

³² *FNPRM* at para. 220.

³³ *Transformation Order* at para. 3.

specific area, then that is a clear sign that greater funds beyond the threshold will be needed to bring broadband to those citizens. To eliminate the participation of the highest cost areas threatens the ability of these areas to ever catch up and only deepens the digital divide the Commission worries about.³⁴

The ARC does not believe that the Commission should adopt federal rules regarding the ETC designation process specifically for the Rural Broadband Experiments.³⁵ Since the Commission seeks to develop data that will be useful going forward, it makes sense to rely on the existing ETC designation and service rules. Obtaining data that reflects the current state of carriers serving rural areas will prove more fruitful in the long term. Altering the ETC designation process during these experiments risks creating an “observer effect,” in which accurate data is not obtained because the experiment does not reflect the realities facing RoR carriers and other ETCs. The ARC additionally cautions against requiring Irrevocable Letters of Credit or other additional financial security for an entity to receive Experiment funding. If a carrier is an ETC in good standing with the Commission, who has a history of proper use of high-cost support and no record of waste, fraud and abuse, that should be sufficient security to ensure that the carrier will properly utilize Experiment funds.

The Commission seeks comment on whether areas served by Experiments should be

³⁴ See Matt Hamblen, FCC Says 93M in US lack broadband, digital divide grows, *Computerworld* (Feb. 10, 2010), http://www.computerworld.com/s/article/9160738/FCC_says_93M_in_U.S._lack_broadband_digital_divide_grows (“In the 21st century, a digital divide is an opportunity divide ... job creation and American competitiveness abroad require that all Americans have the skills and means to fully participate in the digital economy.”); see also Songphan Choemprayong, *Closing Digital Divides: The United States’ Policies*, 56 *Libri* 201 (2006) (“Since the emergence of information technology, the gap between information ‘haves’ and ‘have-nots’ has been broadening: the information rich become richer, while the information poor are poorer.”).

³⁵ *FNPRM* at para. 222.

excluded from Phase II competitive bidding.³⁶ The ARC disagrees with this proposal. High-cost support is necessary to carriers in rural areas not to build out future networks, but to maintain existing infrastructure, and rates for rural customers. Absent high-cost support, carriers who already serve rural areas will not be able to sustain the services they already provide, and telecommunications deployment in rural areas will actually slide backwards. Excluding Experiment-served areas from Phase II support will also create a strong disincentive for companies in the remotest, rural areas (who depend most heavily on high-cost support) from participating in Rural Broadband Experiments. This too will work against the Commission's universal service goals.

V. Conclusion.

The ARC fully supports the Commission's efforts in creating the Rural Broadband Experiments, and is excited about their potential to expand broadband availability in rural and Remote areas and to provide the Commission with valuable data about broadband deployment in rural areas. To best create robust and useful data, the ARC strongly suggests that the Commission select projects with a wide geographic diversity. Because of Alaska's unique challenges and issues regarding middle mile infrastructure and high-cost support, the ARC believes as many as possible, but no fewer than one project selected should be located in Alaska. The ARC looks forward to learning more about the Rural Broadband Experiments as the Commission further develops its process and procedure for selection and project funding.

³⁶ *FNPRM* at para. 223.

Respectfully submitted on this 31st day, March 2014.

DORSEY & WHITNEY LLP
Attorneys for the Alaska Rural Coalition

By: /s/ Shannon M. Heim

Shannon M. Heim
Elizabeth Gray Nuñez
1031 West 4th Avenue, Suite 600
Anchorage, AK 99501
Telephone: (907) 276-4557
Facsimile: (907) 276-4152

50 S. Sixth Street, Suite 1500
Minneapolis, MN 55402
Telephone: (612) 340-8899
Facsimile: (612) 340-2868
Email: heim.shannon@dorsey.com
gray.nunez.elizabeth@dorsey.com

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

In the Matter of)
)
Connect America Fund) WC Docket No. 10-90
_____)

COMMENTS OF THE ALASKA RURAL COALITION

Shannon M. Heim
Elizabeth Gray Nuñez
Dorsey & Whitney LLP
1031 West 4th Avenue, Suite 600
Anchorage, AK 99501
(907) 276-4557

50 S. Sixth Street, Suite 1500
Minneapolis, MN 55402
(612) 340-8899

Counsel for the Alaska Rural Coalition

June 17, 2013

I. Introduction.

The Alaska Rural Coalition¹ (“ARC”) files its Comments in this proceeding pursuant to the *Public Notice* issued by the Federal Communications Commission (“Commission”) on May 16, 2013 seeking comment on options to promote Rural Broadband in rate-of-return (“RoR”) areas.² The ARC believes it is critical for the Commission to make universal service funds available to support broadband lines even when customers choose not to purchase voice telephony service. The evolving nature of telecommunications technology and the growing market in Voice over Internet Protocol (“VoIP”) and other voice technologies supported by a broadband connection mean that the Commission’s high-cost support program must also evolve to fit consumer needs. Additionally, the ARC believes that the Commission should allow RoR carriers to opt in to Connect America Phase II, but must preserve as much flexibility for these carriers as possible.

The ARC membership consists of essentially all of the RoR incumbent rural local exchange carriers (“RLECs”) in Alaska, who share unified interests regarding the impacts of

¹ The ARC is composed of Arctic Slope Telephone Association Cooperative, Inc.; Bettles Telephone, Inc.; Bristol Bay Telephone Cooperative, Inc.; Bush-Tell, Inc.; Circle Telephone & Electric, LLC; Cordova Telephone Cooperative, Inc.; Copper Valley Telephone Cooperative, Inc.; City of Ketchikan, Ketchikan Public Utilities; Matanuska Telephone Association, Inc.; OTZ Telephone Cooperative, Inc.; Interior Telephone Company; Mukluk Telephone Company, Inc.; Alaska Telephone Company; North Country Telephone Inc.; Nushagak Electric and Telephone Company, Inc.; and The Summit Telephone and Telegraph Company, Inc.

² See *Connect America Fund*, WC Docket No. 10-90, *A National Broadband Plan for our Future*, Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *High-Cost Universal Service Support*, WC Docket No. 05-337, *Developing an Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Lifeline and Link-Up*, WC Docket No. 03-109, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011) (“*Transformation Order*” and “*FNPRM*”); Federal Communications Commission, Public Notice, *Wireline Competition Bureau Seeks Comment on Options to Promote Rural Broadband in Rate-of-Return Areas*, WC Docket No. 10-90; (May 16, 2013) (“*Public Notice*”).

further proposed changes in universal service funding to the state. Many of the ARC companies provide some form of broadband service in the remote, high cost areas of Alaska and are very dependent on continued support to maintain viable and affordable service. The ARC urges the Commission to focus on creating stability in the regulatory environment as it implements the details necessary to effectuate the change outlined in the *Transformation Order*.³

II. Supporting Standalone Broadband Lines Is Crucial To Achieving The Commission's Goal of Universal Service.

The Commission seeks comment on the Rural Carrier Associations' proposal that the Commission should provide high-cost support for standalone broadband loops provided by rate-of-return carriers.⁴ The ARC strongly supports the Rural Associations' proposal because it will facilitate the deployment of broadband technology throughout currently unserved areas and so advance the Commission's goal of universal service.⁵ In the *Transformation Order*, the Commission fundamentally revised the definition of universal service to include access to

³ Shawn Buckley, *FCC Goes Public with Its Ambitious Connect America Fund*, Fierce Telecom (Nov. 21, 2011), <http://www.fiercetelecom.com/story/fcc-goes-public-its-ambitious-connect-america-fund/2011-11-21> ("It is essential that the order and the final outcome of the further notice of proposed rulemaking eliminate lingering regulatory uncertainty so that small rural carriers can attract capital and operate high-quality rural broadband networks[.] . . . That uncertainty has a near and long-term effect on how rural service providers can expand broadband to more of their users."); *see also* Ross Boettcher, *Shift for Rural Telecoms*, OMAHA WORLD-HERALD, Nov. 22, 2011, *available at* <http://www.omaha.com/article/20111102/MONEY/711029925> ("U.S. Rep. Lee Terry, vice chairman of the Energy and Commerce Committee's subcommittee on Communications, Technology and the Internet, said he realizes the lack of predictability is an issue.").

⁴ *Public Notice* at para. 2.

⁵ *See Transformation Order* para. 101, n. 158 ("Even if the modest speeds of 4 Mbps down/1 Mbps up are adopted by the FCC as target throughput speeds, substantial construction of terrestrial facilities and expansion of satellite capacity will be needed to create the backhaul capability that will be necessary to deliver broadband at those speeds in Alaska."); *Comments of the Regulatory Commission of Alaska in the matter of Connect America Fund*, WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05- 337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) ("*RCA Comments*") at 14.

broadband internet service at reasonable rates.⁶ In that context, it would be nonsensical for the Commission not to provide high-cost support for broadband deployment even when customers choose not to purchase voice service. The Commission must design its high-cost support policies to maximize deployment of the infrastructure necessary to support high-speed broadband regardless of customers' choice of voice interface.

The nature of voice telephony services in the United States is changing rapidly as new technologies develop that allow consumers to completely forego traditional landline services.⁷ Many voice customers are "cutting the cord" and solely depending on wireless services, VoIP, Skype, or some other form of nontraditional voice services made possible by a broadband connection.⁸ The cost savings to customers and access to nationwide and international services facilitated by these new technologies have the potential to transform the telecommunications market and eventually make traditional landline voice services obsolete.

Most of these emerging voice technologies depend on the availability of a robust, high-speed broadband connection for their success. The Commission's current exclusion of standalone broadband lines from high-cost loop support effectively excludes the customers who are migrating to these technologies from the benefits of the Universal Service Fund. Unless the Commission revises its approach and extends the promise of universal service to customers who only desire a broadband connection, it is unlikely that the Commission will reach its goal of

⁶ *Transformation Order* at para. 5.

⁷ *See, e.g.*, Shawn Knight, "More than half of Americans use mobile phones instead of landlines," Techspot.com (Dec. 28, 2012), *available at* <http://www.techspot.com/news/51190-more-than-half-of-americans-use-mobile-phones-instead-of-landlines.html>.

⁸ *See id.*

ensuring that “broadband is available at affordable, reasonably comparable rates for consumers in high-cost areas.”⁹

Nowhere is standalone support for broadband-only lines more important than in Alaska.¹⁰ Alaska’s network is struggling to add critical middle mile facilities to allow a robust last mile broadband product. In areas where there is adequate connection for broadband-ready last mile networks, the need for high-cost support for standalone broadband service is critical. Videoconferencing technologies are crucial to providing services like distance learning (especially higher education) and telemedicine.¹¹ Many of these remote areas of Alaska

⁹ *Transformation Order* at para. 126.

¹⁰ *Comments of the Regulatory Commission of Alaska, in the matter of Connect America Fund, et. al.*, WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) (“*RCA Comments*”) at 5 (“Yet there is no place in America that can benefit more from the promise of advanced telecommunications. Broadband can make a difference to the remote parts of Alaska beyond what it can anywhere else in the country. Broadband is the modern thoroughfare of Alaska’s future. It will allow a medical doctor to traverse the wilderness between Anchorage and Kotzebue in moments. It will allow an Alaska Native to work for a California high technology firm without ever leaving his subsistence lifestyle behind. It will allow economic development to flow freely between the world outside and our rural communities.”).

¹¹ *Comments of the Alaska Rural Coalition*, GN Docket No. 12-228, before the FCC (Sept. 20, 2012) (“*ARC Broadband Standards Comments*”) at 3 (“The remote nature of these unserved locations in Alaska means that their residents have the greatest need for advanced telecommunications, especially regarding vital services like emergency response, telemedicine and distance learning.”); *see, e.g.*, Kim Severson, *Digital Age is Slow To Arrive in Rural America*, N.Y. Times, (February 17, 2011), available at http://www.nytimes.com/2011/02/18/us/18broadband.html?pagewanted=all&_moc.semit (“In rural America, only 60 percent of households use broadband Internet service.”); *see also Alaska Rural Telehealth Network*, <http://www.nrtrc.org/about/network-profiles/artn/> (last visited Sept. 13, 2012) (“In Alaska, the healthcare workers practicing in hospitals, clinics, and community health centers are essential to the delivery of acute and primary care services to small, rural, and remote communities. Although the majority of Alaska’s population is located outside the greater Anchorage area, the majority of healthcare providers in Alaska (e.g., physicians, PAs, RNs, physical therapists) are located in its three largest cities. As a result, rural clinicians practice in a generalist’s environment, but where they often need to have specialty knowledge and expertise. This dichotomy is further complicated when you consider the limited opportunities for

currently lack access to a high-speed terrestrial broadband network due to lack of access to affordable middle mile.¹² The Regulatory Commission of Alaska, Alaska carriers, and other Rural Associations have made clear to the Commission that substantial support will be needed to meet the Commission's goals for broadband access and speed in Alaska.¹³ In light of Alaska's current lack of infrastructure and high costs of service, failing to revise the Commission's policies and provide support for standalone broadband further impairs carriers from recovering their investment in the Commission's vision of robust broadband and IP networks.

continuing education and access to specialty consultations available because of travel costs, geographical and weather restrictions, and a general lack of or inability to arrange for clinical coverage during absences." *Id.*

¹² See *Eighth Broadband Progress Report, Appendix C*; see also *ACS GN Comments* at 4 ("Among the 51 percent of rural Alaskans who are believed to have some form of broadband access, many are underserved, with access to a form of broadband deemed a bare minimum under the Commission's standards—nothing close to the 4 Mbps the Commission wants incumbent local exchange carriers ("ILECs") to deploy in exchange for CAF support, not to mention the 10 Mbps to 100 Mbps that is available to most urban Americans.").

¹³ See *Reply Comments of the Regulatory Commission of Alaska, in the matter of Connect America Fund*, et. al., WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Feb. 17, 2012) ("*RCA Reply Comments*") at 7 ("Extremely limited fiber facilities and lack of access to the Internet are unique to Alaska and require unique solutions."); *Reply Comments of the Alaska Rural Coalition*, WC Docket No. 10-90, WC Docket No. 05-337, before the FCC (July 23, 2012) ("*ARC Reply Comments*") at 9 ("[T]he lack of roads, extreme climate and harsh geography of Alaska must remain in the forefront of the discussion when considering the role the Remote Areas Fund will play in Alaska"); *Comments of Alaska Communications Systems, Inc.* in the matter of Connect America Fund, WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) ("*ACS USF Comments*") at 3, n. 4 ("Almost everything about providing communications services in Alaska is unique and sets its service providers apart from what other carriers across the country experience.") *Comments of General Communication, Inc. in the matter of Connect America Fund*, WC Docket No. 10-90, Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, before the FCC (Jan. 18, 2012) ("*GCI USF Comments*") at 2-4 ("Alaska is a uniquely high cost area within which to provide any telecommunications, whether traditional telephony, mobile or broadband. Much of remote Alaska lacks even the basic infrastructure critical to most telecommunications deployment, such as a road system and an intertied power grid.").

III. The Commission Should Allow Carriers To Receive Phase II Model-Based Support, But Should Preserve Maximum Flexibility For Carriers.

The Commission seeks comment on whether to create a voluntary pathway to Connect America Phase II model-based support.¹⁴ The ARC supports this option for carriers whose needs are accurately predicted by the Phase II cost model. The ARC further supports the Commission's desire to "provide additional incentives for deployment of broadband-capable networks."¹⁵

It is well established in the record that the cost model produces inaccurate results for Alaska carriers, which suggests that the Commission should proceed with caution.¹⁶ This new method of distributing support represents a large-scale regulatory experiment with extremely high stakes for both carriers and telecommunications customers. The Commission should therefore preserve maximum flexibility for carriers as it designs this voluntary path for RoR carriers.

The Commission seeks comment on whether RoR carriers should be required to convert to price cap regulation in order to receive Phase II support.¹⁷ The ARC supports the Commission's alternative proposal to allow RoR carriers to elect model-based support but otherwise remain regulated under RoR regulation.¹⁸ Many RoR carriers are small businesses without the resources necessary to undergo their companies' conversion to an entirely new regulatory scheme. Some of these carriers have already faced significant loss of support since

¹⁴ *Public Notice* at para. 8.

¹⁵ *Public Notice* at para. 10.

¹⁶ *ARC USF Comments* at 5.

¹⁷ *Public Notice* at para. 12; para. 19.

¹⁸ *Public Notice* at para. 19.

the *Transformation Order*.¹⁹ The ARC respectfully urges the Commission to carefully consider the significant economic impact that conditioning Phase II support on a carrier's conversion to price-cap regulation will have on small entities, as required by the Regulatory Flexibility Act of 1980.²⁰ The ARC also urges the Commission to provide for mechanisms by which small rural carriers will be allowed to recover their prudently incurred embedded investment and repay the debt incurred for that investment.

Should the Commission require conversion to price cap regulation as a condition for transition to Phase II support, the ARC believes it is unlikely that many RoR carriers will elect this option. The ARC respectfully suggests that the Commission allow companies to return to RoR regulation and High-Cost Loop Support (“HCLS”)/ Interstate Common Line Support (“ICLS”). Allowing carriers this flexibility, perhaps on an annual basis, will encourage participation and provide an important safety net for carriers should they find that the transition to Phase II support does not meet their customers' needs.

¹⁹ See *Comments of General Communication, Inc. on the Public Notice Regarding Non-Contiguous Areas Under CAF Phase II, in the matter of Connect America Fund*, WC Docket No. 10-90 (Mar. 11, 2013) at 2 (“*GCI Comments*”) (“[F]or Alaska, across the Connect America Fund mechanisms, the Commission should not focus on mechanisms that will ultimately transfer support from Alaska to the Lower 48, but, instead, the Commission must focus on optimizing at least existing funding levels within Alaska.”); *Comments of Alaska Communications Systems, Inc., in the matter of Connect America Fund*, WC Docket No. 10-90 (Mar. 11, 2013) at 3-4 (“*ACS Comments*”) (“ACS, like other price cap carriers, would face significant increases in its costs of service to deploy, operate, and maintain the facilities necessary to deliver broadband meeting the Commission's CAF Phase II standards throughout its service area covered by CAF Phase II support. ACS would be unable to meet these service commitments based on its current level of legacy support, let alone the sharply reduced levels of support currently suggested by recent CACM model results.”).

²⁰ See 5 U.S.C. § 603.

IV. Conclusion.

The nature of communications technology is currently evolving at an unprecedented pace. The ARC views the Commission's redefinition of universal service to include broadband as a reflection of these changes. Continuing to limit high-cost loop support to those customers who elect to purchase traditional landline voice services would ignore the fact that many Americans no longer purchase a traditional landline. The ARC is encouraged by the Commission's extension of Phase II support to RoR carriers, but believes that this will only succeed if the Commission provides carriers maximum flexibility.

Respectfully submitted on this 17th day, June 2013.
DORSEY & WHITNEY LLP
Attorneys for the Alaska Rural Coalition

By: /s/ Shannon M. Heim

Shannon M. Heim
Elizabeth Gray Nuñez
1031 West 4th Avenue, Suite 600
Anchorage, AK 99501
Telephone: (907) 276-4557
Facsimile: (907) 276-4152

50 S. Sixth Street, Suite 1500
Minneapolis, MN 55402
Telephone: (612) 340-8899
Facsimile: (612) 340-2868
Email: heim.shannon@dorsey.com
gray.nunez.elizabeth@dorsey.com

A tall, lattice-structured metal tower, likely a telecommunications tower, is the central focus of the image. A worker wearing a yellow hard hat and a high-visibility vest is climbing the tower. The tower is made of galvanized steel and has several antennas or equipment mounted on it. The background is a clear, light blue sky. The image is framed by a dark, irregular border at the top and bottom.

Savvakturuuq

*Always Working
Diligently*

**OTZ Telephone
Cooperative, Inc.**

2013 Annual Report

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On the Cover: Ricky Wells

LETTER to Members

May 5, 2014

Dear OTZ Members:

Some years are more challenging than others and here at OTZ, 2013 was more challenging than most. It started out with great optimism. After five years in the works, we were finally able to close on a \$2.4-million loan from the federal government to help us complete the build out of our cellular network to the villages.

However, once the loan was complete but before we could draw on the loan, we had to determine whether there was still sufficient Universal Service Fund support to repay any loan funds borrowed. The analysis revealed that the USF support was just not there. Consequently, we were unable to use the loan and unable to build out our cellular network. This was a big blow.

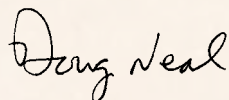
We are now in the process of filing a waiver with the Federal Communications Commission to allow us to hold onto the current level of support for a little longer. This would allow us to accept the loan and build out the cellular network. The waiver process is expensive... and the odds are hard to predict but the timing may be good. The FCC direction appears to be changing. There is a new chairman and others in place that may recognize the vital role that OTZ and other small companies play in delivering telecommunication services to its members. One hopeful sign is that the FCC recently discarded a proposed mechanism for limiting support called the quantile regression analysis (QRA). A main criticism of the QRA was the lack of certainty about the support levels it produced. OTZ's problems are also because of a lack of certainty about support levels so this may resonate.

More than ever, we want to thank the employees and board members for staying the course and continuing to work hard for all of the members of the Cooperative and its subsidiary company, OTZ Telecommunications.

Our 2013 accomplishments include switch and cable improvements in Ambler, Kobuk, Kotzebue and Shungnak — with more projects on the horizon.

We look forward to a brighter 2014 — and plan to be working diligently for you and the region for many years to come.

Sincerely,



Doug Neal
CEO



Gordon Newlin
President



Gordon Newlin,
OTZ President



Doug Neal,
OTZ CEO

Working For Our Customers

2013 Achievements

- Completed cutover of the new T7000 Central office switch in Kotzebue and retired the DCO legacy switch.
- Installed and cutover to new T7000 switches in Ambler, Kobuk and Shungnak.
- Replaced aerial cable around the Turf Street area in Kotzebue.
- Implemented Point of Sale (POS) system, increasing efficiency in sales and inventory.
- Implemented Internet Provisioning, which allows Internet service to be activated, altered, or deactivated directly from the customer service agent's workstation.
- Added 3-MB & 1-MB DSL rate plans.
- Updated OTZ Telecom logo to better reflect our commitment to supporting communities and bringing advanced technologies to the Northwest Arctic.
- Awarded a \$2.4-million loan to expand cellular network to the villages (but unable to draw from it due to lack of USF support).

In the Works For 2014

- Replace aerial cable in Ambler, pending funding.
- Plan for future growth with our existing cable plants.
- Identify service areas with plant issues or increasing demands & schedule updates accordingly.
- File a waiver with the FCC to get the USF support we need to draw from our loan — and then start building out the cellular network to the villages.

Working for Our People, Our Communities

Zonna Lie-Ito OTZ Scholarship Winners

Many congratulations to our 2013 scholarship recipients! Each of these scholars will receive \$1,500 per year as a full-time student as long as he or she maintains a GPA of 2.0 or higher. And the winners are...

- **Keolani A. Kotch, Kotzebue High School**
(Information Technology at UAA)
- **Katie A. Jones, Buckland High School**
(Elementary Education at UAA)
- **Rita R. Ramoth, Kivalina High School**
(Nursing at UAF)
- **Noah A. Roetman, Kotzebue High School**
(Marketing at Boise State University in Boise, ID)

Community Donations & Sponsorships

OTZ Telecom is proud to support our communities in many ways. In 2013, that meant continuing to work diligently everyday and donating to many organizations, including:

- Northwest Arctic Borough
- Northwest Arctic Borough School District
- NANA Regional Corporation
- Maniilaq Association
- Noorvik IRA
- Selawik IRA
- Kotzebue Search & Rescue
- Noorvik Search & Rescue
- Selawik Search & Rescue
- KOTZ Radio
- Village Annual Spring Clean Ups
- Fourth of July Activities in the Villages

Savvakturuq

Always Working Diligently

OTZ is always working diligently for you. While this has been true since the very beginning of the cooperative, we chose the theme of "Savvakturuq" because it reflects both the everyday hard work of our employees and the perseverance of our leadership in the face of daunting challenges this year.

The big challenge on our minds in 2013 was finalizing a major loan to start the build-out of our cellular network to the villages. After many years in the process, we finally secured the loan...only to be suddenly stopped by lack of Universal Fund support.

Other businesses may be tempted to give up after so much time and effort, but OTZ is much more than a business. We are you, the people of the communities we serve. And we are not giving up.

We will continue to work diligently for you in every way we can, not just in Washington DC but here at home, every day. That means implementing efficiencies that help lower rates. Keeping plant operations well equipped and running reliably. Forecasting and planning for future communication demands. And supporting our communities with scholarships, sponsorships, donations and a personal investment in enhancing the lives, and the traditional lifestyles, of our members.



Above: (L-R) Brenda Schaeffer, Grace Norton, Margie Ubben

Right: Malinda Reich





Above: (L-R) Ricky Wells & Carl Weisner

Left: Ann Sieh

Below: Harry Baldwin



We will continue to work diligently for you in every way we can, not just in Washington DC but here at home, every day.

Savaktillautaq

A Good Worker

Phyllis J. Ferguson

began serving OTZ customers on April 19, 1989. She began as a customer service representative, and immediately became an important asset to the company — and the whole community. She knew everyone's phone number in the region and people would call her up to get a phone number!

In 1995, Phyllis was promoted to billing clerk and then in 2002 she became the front office supervisor — on top of the duties she already had.

She thrived in this role. In fact, she did a terrific job of everything, including closing out the monthly billing cycles and handling the reporting to State & Federal agencies pertaining to all things telephone. She worked closely with our consultants, auditors, and the many businesses throughout the region and state. She brought a great attitude to her work and was a much-valued member of the OTZ team.

After 24 years, Phyllis retired from OTZ in August 2013. Thanks Phyllis for all your years of loyal service to OTZ and its customers. We wish you all the best for the future!

Quyanaq — Thank You — Phyllis!



Above: Wilbur Karmun Jr & LeAnn Schaeffer

Right: Caleb Crossan & Dan Savetilik





Above left: Donnie Smith

Above right: Harold Lambert

Bottom left: Dan Schultz

Bottom right: Jason Nantelle

2013 OTZ Telephone Cooperative, Inc. Employees

Andrew Baldwin, Jr.
Ann Sieh
Ben Phillips, Sr.
Brenda Schaeffer
Brian Cleveland
Bruce Barr
Chandra Abeyratne

Caleb Crossan
Carl Weisner
Cindy Fields
Culum Campbell
Dan Schultz
Don Smith
Donna McConnell

Doug Neal
Gary Jackson
Grace Norton
Harold Lambert
Harry Baldwin
Isaac Douglas
Jason Nantelle

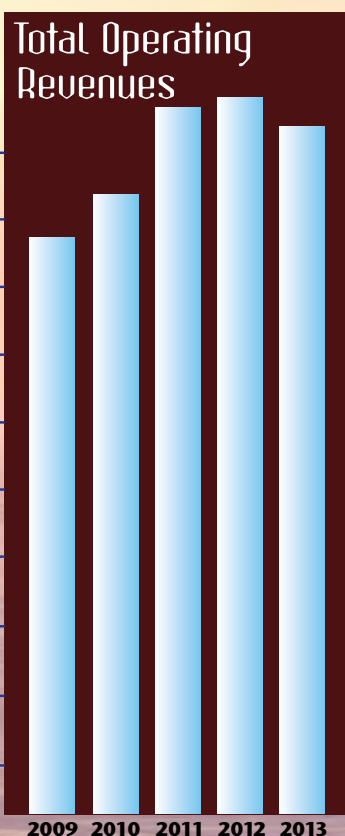
John W. Baker
LeAnn Schaeffer
Lucy Mae McConnell
Malinda Reich
Margie Ubben
Mark Iten
Melford Booth

Phyllis J. Ferguson
Ricky Wells
Rudy Thomas
Sean Hoffman
Shaun Curtis
Verne Cleveland
Wilbur Karmun

OTZ TELEPHONE COOPERATIVE, INC. and SUBSIDIARY
Consolidated Balance Sheets
Years Ended December 31, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash	\$ 1,011,380	1,002,286
Accounts receivable, less allowance for doubtful accounts of zero	979,179	1,156,131
Materials and supplies	487,267	448,379
Prepaid expenses	95,361	92,978
Total current assets	2,573,187	2,699,774
Other assets and investments:		
Other investments	633,845	523,616
Restricted cash	23,834	17,896
Total other assets and investments	657,679	541,512
Property, plant, and equipment:		
In service	31,803,868	31,293,268
Under construction	445,478	1,560,111
	32,249,346	32,853,379
Less accumulated depreciation	19,129,497	19,045,872
Property, plant, and equipment, net	13,119,849	13,807,507
	\$ 16,350,715	17,048,793

Liabilities and Members' Equity	2013	2012
Current liabilities:		
Current portion of long-term debt	\$ 1,719,100	1,375,200
Line of credit	-	1,500,000
Accounts payable and accrued expenses	707,576	663,080
Customer deposits	64,292	51,732
Advanced billing	60,127	60,074
Total current liabilities	2,551,095	3,650,086
Long-term debt, net of current portion	7,927,551	7,547,412
Deferred credits	23,834	17,896
Unclaimed capital credits	296,233	296,233
Members' equity:		
Memberships	6,735	7,660
Patronage capital	5,545,267	5,529,506
Total members' equity	5,552,002	5,537,166
	\$ 16,350,715	17,048,793





Lucy Mae McConnell

**OTZ TELEPHONE COOPERATIVE, INC. and SUBSIDIARY
Consolidated Statements of Operations
Years Ended December 31, 2013 and 2012**

	2013	2012
Operating revenues:		
Local network	\$ 928,372	913,157
Network access	7,595,648	7,748,903
Billing and collection, directory, and other	40,383	58,905
Equipment sales and leases	274,273	312,768
OTZ Telecommunications	1,296,785	1,398,555
Total operating revenues	10,135,461	10,432,288
Operating expenses:		
Plant specific	2,500,039	2,636,357
Plant nonspecific	667,230	580,941
Depreciation	1,647,682	1,575,468
Customer	325,711	306,959
Corporate	1,413,128	1,577,313
Operating taxes	107,721	107,805
Equipment sales and leases	390,940	417,411
OTZ Telecommunications	1,885,033	1,725,261
General and administrative	723,960	488,076
Total operating expenses	9,661,444	9,415,591
Operating margin	474,017	1,016,697
Other income (expense):		
Interest and dividend income	8,776	5,971
Interest expense	(450,493)	(465,418)
Income tax expense	(96,921)	(340,000)
Other gains, net	80,382	56,832
Total other income (expense)	(458,256)	(742,615)
Net margin	\$ 15,761	274,082

A complete copy of the consolidated financial statements audited by BDO USA, LLP may be seen during regular office hours at: OTZ Telephone Cooperative, Inc., Kotzebue, Alaska.

**ANNUAL MEETING MINUTES
OTZ TELEPHONE COOPERATIVE, INC.
May 15, 2013**

I. Call to Order

At 7:01 p.m. on May 15, 2013, Board President, Chester L. Ballot, called to order the 38th Annual Meeting of the OTZ Telephone Cooperative, Inc.

He commented that members should have a copy of the agenda and annual report, and informed the members that we were live on KOTZ Radio.

II. Invocation

Chester requested that Larry D. Jones give the invocation. Larry led the members in a prayer.

On a personal note, Chester acknowledged that in two weeks Larry's son will be home from the Marines: we want to wish him a great welcome in Kotzebue and in Noatak.

III. Determination of Quorum

Chester informed the membership that the notice of the annual meeting was mailed out in late January. The ballots were sent out on April 19th. It was determined that with more than 50 members in attendance a quorum was established. At that time, LeAnn replied, "Yes we have a quorum!"

IV. Early Bird Drawing

After an explanation of how the raffle was going to be run, Ann Sieh, LeAnn Schaeffer and Caleb Crossan conducted the early bird drawing. The first draw was attendee Morris Douglas who picked the fishing rod and drew mail-in winner Patsy Hingsbergen of Selawik. Telcom attendee Ben Phillips picked a turkey donated by the City of Kotzebue. The second draw was attendee Cheryl Jones who picked the 38-quart Marine Igloo cooler and drew mail-in winner Warren Thompson of Kotzebue. Telcom attendee Donna McConnell picked the sleeping bag.

V. Approval of Annual Meeting Minutes of May 16, 2012

Tom Okleasik moved to approve the minutes of the Annual Meeting of May 16, 2012, and was seconded by Red Seeberger. Motion passed unanimously.

Chester took the time to say a very big thank you to Hadley Ferguson for eleven years outstanding customer service. Hadley was hired on January 22, 2001 as a customer service representative. She excelled in this role. Her duties included providing customer service for Kotzebue businesses, OTZ's Rural Alaska Telephone Directory, Member's Capitol Credits and Delinquent Accounts. Hadley is a kind and helpful person who was always a pleasure to work with. In addition

Annual Meeting Minutes,
Continued on Page 8...

to doing her own job, she was extremely helpful to the front office staff and would readily cover the phones if they got busy or were shorthanded. She brought a great attitude to her work and was a much-valued member of the OTZ team. Thanks Hadley for all your years of loyal service to OTZ. The board and staff of OTZ wish you all the best for the future. We will miss you.

VI. Election of Two Directors – from District 2 (Kiana, Noorvik, Selawik) and District 3 (Buckland, Deering)

Chester informed the membership that we have followed the guidelines that are set in the bylaws regarding the nominations and elections. He then read the pertinent bylaws. Ann thanked the nominating committee members, Pierre Lonewolf, Sophie Foster of Kotzebue and Clyde Ramoth of Selawik, who met in March to make the selections. The committee selected members of the cooperative who they thought might be interested in running for the two open board seats. Following that committee meeting, Ann sent letters to the nominees: the nominees who accepted the nomination were listed on the ballot.

Chester informed the membership of the election of two directors and then read the list of nominees from the ballot that was mailed to all members:

District 2 (Kiana, Noorvik, Selawik): Janet Henry (Kiana), Gordon Newlin, Incumbent (Noorvik) and Tommy Ballot Sr. (Selawik).

District 3 (Buckland, Deering): Eunice Hadley, Incumbent (Buckland).

Chester notified the members that he had to wait for one minute to pass and asked if there were any more nominations from the floor. Since there were no additional nominations, he noted that the nominations were closed.

Chester asked if there were any more ballots for the staff to pick up. He requested and received six volunteers from the membership to help Ann count the ballots.

VII. New Business

There was no new business.

VIII. Reports

A. Board

Chester informed the membership that he attended a Legislative & Policy Conference in Washington, DC. The delegation met with Congressman Young, Senator Begich, and Senator Murkowski to discuss rural telephone issues, including the high cost of providing telephone service in rural areas. He shared with the delegates that there is a significant difference between conditions in rural Alaska and rural conditions in the rest of America.

Chester then introduced the current board of directors representing the seven districts:

District 1 (Ambler, Kobuk, Shungnak) Jane Cleveland.

District 2 (Kiana, Noorvik, Selawik) Gordon Newlin, Secretary/Treasurer.

District 3 (Buckland, Deering) Eunice Hadley.

District 4 (Kivalina, Noatak, Red Dog) Larry D. Jones.

District 5 (Kotzebue) Marie N. Greene, who is the telecom president.

District 6 (Kotzebue) Chester L. Ballot.

District 7 (Kotzebue) Lucy S. Nelson.

Chester turned the meeting over to CEO Doug Neal.

B. Management

Doug thanked the board president and welcomed everyone saying, "It's great to see everyone here on a kind of snowy evening. I'm glad everyone made the time to come out and spend a couple of hours with us. First, I want to thank Ann Sieh; she is the gal that puts together this entire annual meeting." He explained that organizing this meeting takes a tremendous amount of time and effort, starting in early January. A great deal of detail work is required to make an event like this look easy and Ann does make it look effortless. He went on to say, "When you see her, please do thank her for the great job she does to make this evening look so easy, and even though she can't hear us, let's give Ann a round of applause."

He then shared that many months ago we applied for a \$2.4 million loan that would allow us to build out our cellular network to all our villages. After a long and arduous process, we were finally able to get that loan closed out. Over the next 12 months, we will be installing 3G wireless switches in all the villages and in Kotzebue.

He shared with the membership that the Federal Communications Commission's (FCC's) primary focus over the past three years has been implementing the National Broadband Plan. While having this broadband plan would seem to be good public policy, and it certainly sounds good, it has actually been quite harmful to little companies like OTZ and other small rural companies in Alaska and throughout rural America. For example, irrespective of the cost to build out a network, people in Washington, DC, who have never been to rural Alaska, are using mathematical modeling to show what they think it costs to build out a network. As one of their model inputs, they use road miles and even with something as simple as this, they used bad data. For the North Slope, they used 2,429 miles of road, when in reality there are only 220 miles. Arctic Slope Cooperative had to make repeated visits back to the FCC and spend over \$100,000 in consulting fees to show the FCC that there are no roads connecting the villages out there and that caribou trails do not count! The FCC also has in its model that it is less expensive to build in rural Alaska than it is in Ohio. We will continue to do our best to put pressure on the FCC to do the right thing for rural Alaska.

We have two middle mile projects on the horizon that we are excited about. Right now all middle mile transport goes over the satellite, so whenever you make a phone call, anything that goes on the Internet has to go over the satellite. Currently, there are two projects that are working their way toward us: GCI is building out its terrestrial network up from Nome, and Quintillion Network is planning on running undersea fiber off a backbone spur that's going to run between Japan and England via the Northwest Passage. The GCI project is supposed to take place in the next couple of years. This summer they are supposed to do the survey work, and next summer they are supposed to lay the cable, and run the spurs at about the same time. We are excited about the options that both projects bring to OTZ, and the options it's going to give us for middle mile transport. Our concern with the GCI microwave project is that although much of the network was built with federal dollars, GCI seemed to be treating it as if it was a privately built network. To ensure that other small businesses have equal access to this network will likely require federal oversight by the Regulatory Commission of Alaska. In an ideal world, we will have the opportunity to use either GCI or Quintillion to access the middle mile transport, and hopefully this will bring down the cost. Right now, if you want to buy an Internet circuit, everything is really expensive. It's our hope that the terrestrial network will work or that the submarine fiber that comes to town will drop prices to a much more affordable level for Internet and other similar data services. We are looking forward to those two projects taking place and we think they will bring real benefits to the region.

Doug then introduced our Outside Plant Manager Ben Phillips.

Ben greeted the members, and informed them that before he talked about the projects that we did last year and the projects that we are going to do, he wanted to introduce the staff of the Outside Plant.

Don Smith, purchasing agent/building coordinator; Harold Lambert, warehouseman/expeditor; Wilbur Karmun, Jr., central office technician; Margie Ubben, central office technician; Chandra Abeyratne, COE administrator; Dan Schultz, COE installer; Harry Baldwin, foreman/journeyman splicer; Ricky Wells, construction foreman/journeyman lineman. Our village representatives: Brian Cleveland of Ambler; Rudy Thomas of Buckland; Bruce Barr of Deering; Shaun Curtis of Kiana; Andrew Baldwin of Kivalina; Melford Booth of Noatak; Vernon Adams of Noatak; Verne Cleveland of Noorvik; Sean Hoffman of Noorvik; Gary Jackson of Selawik; and Isaac Douglas of Shungnak. Our engineers: Gerald Gardner and Jeff Simpson of Mid State Consultants; John Baker of the IBEW; and Frank Simpson of St. Elias Communications.

Ben summarized the projects completed in 2012:

We installed new central office switches in Ambler and in Kobuk, but the more challenging project was in Kotzebue.

We upgraded the aerial cable in Kotzebue, between the Rec. Center and NW Inupiaq Housing offices; it was a large feeder cable that needed to be replaced.

We spent a year in Ambler rebuilding the outside plant; that cable was old and we would like to replace it to tie it into the new switch there. We completed Phase 1 this past summer and we are working on funding for Phase 2 with the goal of completing it by this fall.

He shared what is ahead. We would like to:

- Complete the Shungnak central office by mid-July.
- Do upgrades in all our central offices.
- Do some maintenance to improve all our equipment.
- Do various upgrades to cable plant in each village; pending Ambler's financing, we would like to get to all the villages.

Ben then introduced OTZ Telecommunications Operations Manager Carl Weisner.

Carl thanked Ben, Doug, Chester and Ann. He greeted the membership and thanked them for coming to the meeting. He then introduced his staff: Malinda Reich, our billing clerk, who is out of state this evening and Caleb Crossan, who is a customer service representative.

Carl also introduced the Internet Department: Mark Iten, our network administrator; Jason Nantelle, our Internet systems administrator; and Culum Campbell, our network systems technician.

He then shared a little bit about OTZ Telecom, which is a wholly owned subsidiary of OTZ Telephone Cooperative that provides cellular, Internet, and long distance service.

Carl presented his overview of 2012:

A Wi-Fi network was built in Kotzebue that can be used from any device, whether it is your iPad, phone or laptop and provides speeds as fast as 1.5mb, which is really useful. OTZ DSL subscribers can connect to this network for free.

We also doubled our DSL monthly transfer amounts and increased our upload speeds. OTZ overage charges are at very low rates.

We are in the process of building out the wireless network to include the villages that are not covered yet (Kotzebue, Noorvik and Selawik are covered now). In Phase 1 we would like to get Kivalina, Noatak, Kiana and Shungnak connected as well: these four villages have towers and antennas, but do not have the switching equipment yet. Phase 2 will extend the wireless network to Buckland, Deering, Ambler and Kobuk. These villages will get 3G service that will extend out of town approximately 18 miles.

He then highlighted the rate plans for cellular service such as Alaska 200 and the Nationwide plans. We also have an Aana's and Taata's plan. We have free co-op phones: if you don't have a phone and you are a member in good standing, you can pick one up from Caleb. By popular demand, we have two options: the Samsung Galaxy S4 phone and the iPhone.

Our largest DSL rate plan has a 50GB data transfer amount per month and our overage rates are really inexpensive. If you have an OTZ cell phone, you get a huge Internet discount. For example, if you have one phone you get \$40 off and if you have four phones you get \$75 off Internet service plus free access to Wi-Fi.

Carl then introduced Brenda Schaeffer who introduced the front office staff.

Brenda greeted the membership, her parents Paul and Gussie Norton in Noatak, and everyone present at the meeting or listening on KOTZ.

She introduced the front office staff: Phyllis Ferguson, billing clerk; Cindy Fields, billing assistant; Grace Norton, customer service representative; and LeAnn Schaeffer, customer service representative.

She shared with the membership that OTZ would like to encourage customers to sign up for E-bill, to go green and paperless. Customers who use E-bill view their statements online (or stop by the OTZ office). It's one way customers can help OTZ keep rates low.

She also shared with members that OTZ offers the Lifeline/Linkup Program for \$1.00 per month; qualifying customers can get it for either their home or cell phone. To sign up, call or stop by the office.

She then introduced the accounting staff: Lucy Mae Lambert, who was listening on the radio, is our accounting clerk; and Donna McConnell, is the accounting clerk who does our accounts payable and accounts receivable.

C. Finance

Brenda then went into the financial reports, informing the membership that the presentation is a summary from the consolidated financials and includes activities of the co-operative and telecom; this information can also be found in your annual report. The detailed financial statements are available during our regular office hours.

The financial statements were audited by Mikunda/Cottrell, which issued a clean opinion. A clean opinion means the statements were accurate in accordance with generally accepted accounting principles.

Brenda reported on the 2012 assets, liabilities, members' equity, statement of operations, operating revenues, total customers, total operating revenue, and summary of significant cash transactions. She then turned the meeting back to President Chester Ballot. Chester thanked everyone for their reports, from Doug and his staff.

IX. Unfinished Business

There was no Unfinished Business.

Chester gave the membership an opportunity for questions for the board or staff.

Eda Wilson, said that OTZ is doing a great job and thanked the board for everything they are doing for the members and said, "Keep up the good work. Thank you." Chester thanked Eda for the comment.

Alice Sheldon greeted everyone and stated, "I am Moira Sheldon's mother. I just want to say thank you to Carl for donating 10 OTZ cell phone bags when we were fundraising for Moira to go to Australia." She shared that a kindergarten boy who won an OTZ cell phone bag felt like he was a grand-prize winner. Chester thanked her for sharing that and then thanked Carl.

At this time, they stood at ease to wait for the election results.

X. Election Results

Chester introduced Ruth Schaeffer who presented the election results.

Ruth gave them as follows:

District 2 (Kiana, Noorvik, Selawik) – Janet Henry (Kiana) with 67 votes; Gordon Newlin, Incumbent (Noorvik) with 171 votes; and Tommy Ballot Sr. (Selawik) with 79 votes. The winner for District 2 is Gordon Newlin (Noorvik) with 171 votes.

District 3 (Buckland, Deering) – Eunice Hadley, incumbent with 299 votes.

Ann thanked Ruth Schaeffer, Red Seeberger, Annette Richards, Clara Walker, Iva Woods, and Norma Rae for helping us out. Chester also thanked them for helping out. He then congratulated both Gordon and Eunice.

XI. Drawing of Door Prizes

Ann, LeAnn and Caleb volunteered to help with the final drawing. The drawing of door prizes was held and the following winners were announced: attendee, Ellen Booth, picked the 170-piece Professional Tool Set and drew mail-in winner, Emma S. Norton of Selawik, to receive the same prize. Telcom attendee, Raymond Coppock, picked the 9-piece Fisherman's Tool Set; attendee, Culum Campbell, picked the 20-piece flatware set and drew mail-in winner, Morris Douglas of Kotzebue. Telcom attendee, Donna McConnell,

picked a Deluxe Arm Chair; attendee, Brenda Schaeffer, picked the turkey donated by the City of Kotzebue and drew mail-in winner, Caleb and Lucille Wesley of Kivalina. Telcom attendee, MaryAnn Wilson, picked the 3-piece non-stick skillet set; attendee, Chandra Abeyratne, picked the 6-piece glass mixing bowls and drew mail-in winner, Timothy B Jorgensen of Selawik. Telcom attendee, Helen Barger, picked a 20-piece flatware set. Attendee, Alice Sheldon, picked the sleeping bag and drew mail-in winner, Larry Sr. and Christina Westlake of Kiana. Telcom attendee, Norma Rae, picked the Thermos bottle. Attendee, Raven Hunnicutt, picked the deluxe armchair and drew mail-in winner, Josephine K. Sampson of Kotzebue. Attendee, LeAnn Schaeffer, picked the Thermos bottle and drew mail-in winner, Wanda Dufrane of Kotzebue. Telcom attendee Lance Kramer picked the 170-piece professional tool set. Attendee, Allison Crossan, picked the 3-piece non-stick skillet set and drew mail-in winner, Emma Berry of Shungnak. Telcom attendee, Jack Hyatt, picked the fishing rod. Attendee, Iva Baker, picked the expandable digital cordless answering system and drew mail-in winner, Ron Moto of Deering. Telcom attendee, Donene Stein, picked the turkey donated by the City of Kotzebue. Attendee, Christine Barger, picked the 9-piece fisherman's tool set and drew mail-in winner, Denny and Cathleen McConnell of Kotzebue. Telcom attendee, Culum Campbell, picked 6-piece mixing bowls. Telcom attendee, Kenny Stein, picked the expandable digital cordless answering system and telcom attendee, Molly Sheldon, picked the 38qt marine Igloo cooler. The Grand Prize Drawing: attendee Susie Sours, picked the Apple iPad with 32G w/smart case and drew mail-in winner, Alice Swan, of Kivalina. Telcom attendee, Jason Nantelle, picked the drum of gas or stove oil. Attendee, Helen Barger picked the 8 X 10 fire retardant wall tent and drew mail-in winner, Norman Ticket, of Selawik. Telcom attendee, Ben Philips, picked the Apple iPad with 32G w/smart case. Attendee, Ruth Nelson, picked the drum of gas or stove oil and drew mail-in winner, Warren Thompson, of Kotzebue. Telcom attendee, Sheila Stein, picked the 8 X 10 fire retardant wall tent.

Chester commented that Ann always gets the fun part and thanked Ann and her staff for handing out the door prizes.

XII. Adjournment

Red Seeberger moved to adjourn, seconded by Tom Okleasik. The meeting adjourned at 8:35 p.m.

Thank you KOTZ Radio Station for sending this meeting out live and we stand adjourned.

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OTZ Telephone Cooperative, Inc.

346A Tundra Way
P.O. Box 324 • Kotzebue, Alaska 99752
Phone: 907-442-3114 • 800-478-3111
Fax: 907-442-2123
www.otz.net