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GOVERNMENT-OWNED LONG-LINES COMMUNICATION

GOVERNMENT

FACILITIES IN THE STATE OF ALASKA

Storage

HEARING
BEFORE THE
PREPAREDNESS INVESTIGATING
SUBCOMMITTEE
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

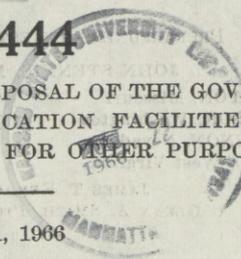
SECOND SESSION

ON

S. 2444

A BILL TO AUTHORIZE THE DISPOSAL OF THE GOVERNMENT-OWNED LONG-LINES COMMUNICATION FACILITIES IN THE STATE OF ALASKA, AND FOR OTHER PURPOSES

MAY 31, 1966



Printed for the use of the Committee on Armed Services



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CONTENTS

	Page
Statement of:	
The Honorable E. L. Bartlett, a U.S. Senator from the State of Alaska	4
John W. Perry, Deputy for Transportation and Communications, Office of the Assistant Secretary of the Air Force, Installations and Logistics; accompanied by Maj. Gen. Gordon T. Gould, Jr., Director of Command Control and Communications, Deputy Chief of Staff, Programs and Resources, Headquarters, U.S. Air Force	7
James J. Wadsworth, Commissioner, Federal Communications Commission; accompanied by Kelley E. Griffith, Chief, Domestic Rates Division, Common Carrier Bureau	37
Joseph H. FitzGerald, Chairman, Federal Field Committee for Development Planning in Alaska	44
Robert E. Sharp, assistant commissioner of administration, State of Alaska	51
The Honorable William A. Egan, Governor of Alaska	57
Hon. Elmer Rasmuson, mayor of the city of Anchorage, Alaska; accompanied by John T. Harris, Jr., manager, city of Anchorage, Alaska, telephone utility	63
AFTERNOON SESSION	
Statement of:	
Arthur Garrett, president, Alaska Power & Telephone Co	73
Henry M. Altepeter, chief engineer, Continental Telephone Corp	80
W. R. Jarmon, vice president, General Telephone & Electronics Corp., accompanied by D. F. Piske, government services planning engineer, General Telephone & Electronics Corp., and C. J. McLean, government communications director	85
Herbert H. Butler, secretary, United States Independent Telephone Association	93
Harry Reimer, president, Alaska Telephone Association	97
John W. Perry, Deputy for Transportation and Communications, Office of the Assistant Secretary of the Air Force, Installations and Logistics; accompanied by Maj. Gen. Gordon T. Gould, Jr., Director of Command Control and Communications, Deputy Chief of Staff, Programs and Resources, Headquarters, U.S. Air Force—Resumed	100
Appendix	107

GOVERNMENT-OWNED LONG-LINES COMMUNICATION FACILITIES IN THE STATE OF ALASKA

TUESDAY, MAY 31, 1966

U.S. SENATE,
PREPAREDNESS INVESTIGATION SUBCOMMITTEE
OF THE COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee (composed of Senators Stennis (chairman), Symington, Jackson, Cannon, Byrd of West Virginia, Saltonstall, Smith, and Thurmond) met, pursuant to notice, at 10:05 a.m., in room 224, Old Senate Office Building, Senator John Stennis presiding.

Present: Senators Stennis (presiding), Symington, and Jackson.

Also present: James T. Kendal, chief counsel; Glenn A. Smith, professional staff member; Douglas N. Jones, staff economist, Federal Field Committee for Development Planning in Alaska.

Senator STENNIS. May we have quiet, please?

Everyone have seats. If there is not a chair for everyone, we will get you one. I understand the screen will not be there very long but they want to use it and we insist they use it early so that everyone can see and hear.

I have a brief statement to make. But, first, we have no communication yet from the Budget Bureau regarding their position on S. 2444. I understand their position is favorable. But I wish they had their statement here so it could be put in the record at this time.

Mr. Reporter, will you leave a space for it, please?

(The document referred to follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., May 31, 1966.

HON. JOHN STENNIS,
*Chairman, Preparedness Investigating Subcommittee,
Committee on Armed Services, United States Senate,
Washington, D.C.*

DEAR MR. STENNIS: Thank you for your letter of May 25, 1966, notifying us that the Preparedness Investigating Subcommittee of the Senate Committee on Armed Services will hold hearings on S. 2444, a bill "To authorize the disposal of the Government-owned long-lines communication facilities in the State of Alaska, and for other purposes," on Tuesday, May 31, 1966. Your letter also indicated that it would be helpful to the Subcommittee if the Bureau would submit a report, or have a representative testify, on this legislation.

While we do not desire to testify, we would like to emphasize the full support of the Bureau of the Budget for the enactment of this legislation. S. 2444 is the introduced version of a proposal transmitted to the Congress by the Department of Defense and, as the accompanying letter to the President of the Senate indicated, the enactment of the bill would be consistent with the Administration's objectives.

Sincerely yours,

WILFRED H. ROMMEL,
Acting Assistant Director for Legislative Reference.

Senator STENNIS. I have a brief opening statement which will explain the situation and our approach to this matter.

The purpose of today's hearing is to consider S. 2444, which would authorize the Department of Defense to dispose of Government-owned, long-lines communication facilities in the State of Alaska. This bill has been referred to the subcommittee by the chairman of the full committee, Senator Russell.

By way of background, the Alaska Communication System was established by act of Congress on May 26, 1900. Among other things, this act authorized the Secretary of War to permit commercial businesses to use the military telegraph cable lines in Alaska. Under the operation of the Army until 1962, and under the Air Force since that time, the entire complex of Government-owned communications facilities in Alaska has grown and now includes the facilities of five separate systems operated by four different organizations.

I am not surprised at that. Most, but not all, of the facilities in this intricate Government-owned complex were installed for defense needs, including the requirements of the defense warning system. Over the years, the commercial use of these facilities has increased. It is continuing to expand with the growth of Alaska.

S. 2444—the legislation we are now considering—seeks to authorize the disposal of all or any part of the Government-owned, long-lines communication facilities in Alaska.

The Department of Defense, through the Department of the Air Force, is sponsoring this legislation, and Air Force representatives are here today as witnesses in support of the request. Since we are all generally aware of the present and continuing needs of the Defense Department for communication facilities in Alaska, we will certainly want to learn how and under what provisions the proposed disposal will be carried out, if authorized by the Congress, and how the defense and other national interests will be safeguarded and protected.

In that regard, I might just list at this time some of the key questions that come to mind in connection with this matter so that the various responsible witnesses will be sure to speak to them. These are:

1. What are the national defense implications of this legislation?
2. What is the assurance that the Government will recover a fair share of its total investment?
3. What effect will the transfer of all or part of the system have on future costs to the Government?
4. What assurances can be given of continued and improved services to civilian users and of fair and equitable rate schedules?
5. What protection will be afforded the several hundred Government employees now employed in operating the systems?

A number of witnesses desire to be heard on this bill, including representatives of the State of Alaska, the Air Force, the Federal Communications Commission, the Federal Committee for Development Planning in Alaska, and the communications industry. We will, of course, be happy to receive the statements of all who have a legitimate interest in this legislation.

We will commence with Air Force witnesses, so that they may explain the system and the basis of the request of the Department of Defense that disposal of these facilities be authorized.

First, we wish to place in the record a copy of S. 2444.
(The bill referred to, S. 2444, follows:)

[S. 2444, 89th Cong., 1st sess.]

A BILL To authorize the disposal of the Government-owned long-lines communication facilities in the State of Alaska, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Alaska Communications Disposal Act".

TITLE I—DEFINITIONS

SEC. 101. In this Act—

(1) "Transfer" means the conveyance by the United States of any element of ownership, including but not restricted to any estate or interest in property and franchise rights, by sale, exchange, lease, easement, or permit, for cash, credit, or other property, with or without warranty.

(2) "Long-lines communication facilities" means the transmission systems connecting points inside the State with each other and with points outside the State by radio or wire, and includes all kinds of property and rights-of-way necessary to accomplish this interconnection.

(3) "Agency concerned" means any department, agency, wholly owned corporation, or instrumentality of the United States.

TITLE II—TRANSFER OF UNITED STATES GOVERNMENT-OWNED LONG-LINES COMMUNICATION FACILITIES IN AND TO ALASKA

SEC. 201. (1) Subject to the provisions of section 202, and notwithstanding provisions of any other law, the Secretary of Defense or his designee, with the advice, assistance, and, in the case of any agency not under the jurisdiction of the Secretary of Defense, the consent of the agency concerned, and after approval of the President, is authorized to and shall transfer for adequate consideration any or all long-lines communication facilities in or to Alaska under the jurisdiction of the Federal Government to any person qualifying under the provisions of section 202, and may take such action and exercise such powers as may be necessary or appropriate to effectuate the purposes of this Act.

(2) Transfers under this title shall be made in accordance with the procedures and methods required by sections 203(e) (1), (2), and (3) of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 484(e)), except that "the Secretary of Defense or his designee" shall be substituted for all references therein to "the Administrator".

(3) The requirements of section 207 of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 488), shall apply to transfers under this title.

(4) The head of the agency concerned or his designee shall execute such documents for the transfer of title or other interest in property, except any mineral rights therein, and take such other action as the Secretary of Defense deems necessary or proper to transfer such property under the provisions of this title. A copy of any deed, lease, or other instrument executed by or on behalf of the head of the agency concerned purporting to transfer title or any other interest in public land shall be furnished to the Secretary of the Interior.

(5) No interest in public lands, withdrawn or otherwise appropriated, may be transferred under this title without the prior consent of the Secretary of the Interior, or, with respect to lands within a national forest, of the Secretary of Agriculture.

SEC. 202. No transfer under this title may be made unless the Secretary of Defense or his designee determines that—

(1) the United States does not need to retain the property involved in the transfer for national defense purposes;

(2) the transfer is in the public interest;

(3) the person to whom the transfer is made is prepared and qualified to provide, without interruption, the communication service involved in the transfer; and

(4) the long-lines communication facilities will not directly or indirectly be owned, operated, or controlled by a person who would legally be dis-

qualified by the Federal Communications Commission from holding a radio station license under any of the terms of the Communications Act of 1934, as amended.

SEC. 203. The agreements by which a transfer is made under this title shall include a provision that—

(1) the person to whom the transfer is made shall, subject to the rules and regulations of any body or commission established by the State of Alaska to govern and regulate communication services to the public and of the Federal Communications Commission and all applicable statutes, treaties, and conventions, provide without interruption, the communication services involved in the transfer, except those services reserved by the United States in the transfer; and

(2) the rates and charges for such services applicable at the time of transfer shall not be changed for a period of one year from the date of such transfer unless approved by a governmental body or commission having jurisdiction.

SEC. 204. Transfers under this title do not require the approval of the Federal Communications Commission except to the extent that the approval of the Federal Communications Commission may be necessary under section 202(4).

SEC. 205. Notwithstanding the provisions of any other law, the gross proceeds of each transfer shall be covered into the Treasury of the United States as miscellaneous receipts.

SEC. 206. The Secretary of Defense or his designee shall report to the Congress and the President—

(1) in January of each year, the actions taken under this title during the preceding twelve months; and

(2) not later than ninety days after completion of each transfer under this title, a full account of that transfer.

TITLE III—MISCELLANEOUS PROVISIONS

SEC. 301. Except as provided in section 204, this Act does not modify in any manner the provisions of the Communications Act of 1934, as amended.

SEC. 302. There is authorized to be appropriated to the Secretary of Defense such sums as may be necessary to carry out the provisions of this Act.

Senator STENNIS. We are glad to have here with us the Honorable Elmer Rasmuson, mayor of Anchorage, Alaska. Mayor, we are glad to have you here. I always remember that London had a mayor before England had a king, and you have to do business with these mayors.

We are also glad to have the Honorable James J. Wadsworth, Commissioner of the Federal Communications Commission. Commissioner, we are delighted to have you here, and you will be called on in time.

Now, first, though, we want to hear from Senator Bartlett, the very valuable Senator from the State of Alaska. He was formerly a member of this subcommittee and the Armed Services Committee, and is a member of the Appropriations Committee. We haven't forgiven him entirely for leaving us but there are some matters that Alaska has some interest in, so we have to forgive him on that ground.

Senator, we are delighted to have you here, sir, and you may proceed in your own way.

STATEMENT OF HON. E. L. BARTLETT, U.S. SENATOR FROM ALASKA

Senator BARTLETT. Thank you, Mr. Chairman, I haven't excused myself entirely yet after these years for leaving the subcommittee.

Senator STENNIS. Thank you, Senator.

Senator BARTLETT. Mr. Chairman, I have kept fairly close touch with the whole ACS matter for some years, and as an Alaskan know that the performance of the military in historically providing com-

munication service to our people has been by and large a distinguished one. The fact that we are here today to consider S. 2444 is a matter of some pleasure to me also. For now we have the opportunity to have a full airing of new facts that make possible the determination by the DOD that (1) continued Government operation of ACS is no longer necessary or desirable; and that (2) relatedly, the system is now commercially attractive to private operators, making disposition feasible.

It appears we have here one of those rare examples of mutual interest where all parties can benefit from the action proposed. The military would be allowed to shift its attention and resources away from this nonmilitary function and toward the essential defense functions it is designed and inclined to perform; the Alaska subscriber—and indeed all citizens having occasion to call to and from and within the State—could benefit by modernized service and reasonable charges; the Government at large would gain by such a public service act because it would enhance the development of Alaska, making the State more self-sufficient. This last is an important point, because it is all too easy to see this proposed action as a rather narrow matter of only local interest. This is not the case, and I trust that the record of these hearings will make this clear.

I believe all would agree that for our complex and interdependent society the ready availability of modern communications at reasonable costs has grown to be almost a necessity in our private and business lives. Anything we can constructively and responsibly do to assist our citizens in this regard seems to me a good policy for the Government to follow. I believe enactment of this legislation under the safeguards of all interests is one of those things.

That concludes my statement, Mr. Chairman.

I have here two matters that I would like, with your permission, to offer for the record.

Senator STENNIS. All right, sir.

Senator BARTLETT. One is the wire from Mr. Hiram L. Tuttle, of Kirkland, Wash., relating to this bill. The second is an editorial which appeared May 27 in the Fairbanks, Alaska, Daily News-Miner, the farthest north daily published under the American flag. It is a very interesting and logical editorial, and it is headed "Sale of Commercial ACS in Best Interests of Alaska." I would like to offer those two.

Senator STENNIS. All right, Senator, we will put those in the record.

Senator BARTLETT. Thank you, sir.

(The wire and editorial referred to follow:)

KIRKLAND, WASH., May 28, 1966.

Senator BOB BARTLETT,
Washington, D.C.:

I regret that I cannot be present to testify at the hearing on S. 2444. I urge that sale of the Alaska Communication System be authorized. It is imperative that ACS be separated from the Defense Department so progress in commercial communications in Alaska can be made. Sale or transfer should include White Alice, so buyer can control his own commercial circuitry. Defense circuits can be leased from commercial operator and should save the Government money over present costs.

Regards,

HIRAM L. TUTTLE.

[Fairbanks Daily News-Miner, May 27, 1966]

SALE OF COMMERCIAL ACS IN BEST INTERESTS OF ALASKA

Informed testimony next Wednesday will overwhelmingly favor a bill that would allow the government to sell the commercial portion of the Alaska Communication System.

The government itself has concluded that the long line commercial system is now large enough to be operated successfully as a private, commercial, public utility system. And private enterprise is keenly interested.

The sooner such a transfer takes place, the better it will be for Alaska and Alaskans. Where a modernized system could produce economies and improved service leading to more use and therefore lower long-distance rates, there have been no major improvements in the ACS commercial system since 1959.

Private bidders should of course be required to state quite specifically how they would upgrade the system, and lower the rates, and when. Such commitments would in the long run mean much more in terms of public service than the amount of the buying price for the system itself. For what is being purchased is not so much equipment (that is largely outmoded), as it is a franchise to operate as a public utility.

The company committing itself to the most substantial improvements and the lowest rate schedules could then be allowed to take over. Subsequently, services available to telephone and telegraph users in the smaller states would finally become available to Alaskans. Direct distance dialing, for instance, would be one major improvement allowing for a considerable reduction in night and Sunday station-to-station rates.

To cite one example of the discriminatory toll rates prevailing now, a three-minute station-to-station call from Nome to Seattle costs \$6.50. But the same call between Cincinnati and Seattle—over the same distance—costs only \$1.90. Generally, long distance calls from Alaska tend to run three to four times the cost of comparable distance calls in the smaller states.

One notices that where almost everything costs more these days, long distance calls are a notable exception. Nowadays you can call coast-to-coast for a dollar. This has happened because modernized service permits lower rates, which produce more use, thence more revenue to stimulate further upgrading and expansion.

The opposite has occurred in Alaska. The system has in effect throttled itself for a number of years. Government agencies making free or almost free use of the ACS long distance lines have, moreover, thrown the extra cost burden on the average citizen. The elimination of such inequities under private ownership would of course be an important factor in the lowering of rates.

Private ownership would, in addition, produce the public benefit of placing the system, originally valued at \$35 million, on the property tax rolls of the boroughs in which its facilities are located.

The importance of this hearing before a Senate committee in Washington next week cannot be overemphasized. In addition to the question of authorizing the sale of the system, it would appear that this forum is the logical place to establish the criteria under which the sale would occur.

It will be to the best interests of Alaskans if the criteria include absolutely firm commitments for dependability of service, completeness of service to remote areas, a timetable for modernization and additional services, and realistic rate structures.

The end result, of course, should be that long distance communication within Alaska and on the interstate level can become part of the accepted way of American life as it is in the other states, rather than a "luxury" restricted largely to business purposes.

Senator STENNIS. I want to thank you for your very valuable work on this bill and in arranging for this hearing, and getting the parties in interest here. I also thank you people for coming down from Alaska and being here this morning.

Senator BARTLETT. May I conclude by saying, Mr. Chairman—

Senator STENNIS. Yes.

Senator BARTLETT (continuing). That thanks ought to go the other way around. We are highly appreciative, in the first place, that you took charge of these hearings, and that, second, you did it on a day

immediately following the holiday when we know you had so many things in your own office to catch up on. We are truly appreciative.

Senator STENNIS. Well, it is a pleasure to be with you any time, and to assist with the problems too in your State.

Thank you, Senator. Come and sit up here if you will. There will be matters we will want to confer with you about.

All right, Mr. Kendall, who do you have next, please?

Mr. KENDALL. Mr. John W. Perry.

Mr. PERRY. Yes, sir.

Senator STENNIS. You represent the Air Force.

Mr. PERRY. Yes.

Senator STENNIS. You have a statement here. What is your pleasure with reference to this statement, Mr. Perry? You have a rather lengthy statement. We will put all of it in the record. That means it is available for study by all interested Senators and staff members. Suppose you summarize, then, the chief points.

Mr. PERRY. All right, sir.

Senator STENNIS. You may proceed. All right, Mr. Perry, you are Deputy for Transportation and Communications, Office of Assistant Secretary of the Air Force; is that correct?

Mr. PERRY. That is correct.

Senator STENNIS. All right, proceed.

STATEMENT OF JOHN W. PERRY, DEPUTY FOR TRANSPORTATION AND COMMUNICATIONS, OFFICE OF THE ASSISTANT SECRETARY OF THE AIR FORCE, INSTALLATIONS AND LOGISTICS; ACCOMPANIED BY MAJ. GEN. GORDON T. GOULD, JR., DIRECTOR OF COMMAND CONTROL AND COMMUNICATIONS, DEPUTY CHIEF OF STAFF, PROGRAMS AND RESOURCES, HEADQUARTERS, U.S. AIR FORCE

Mr. PERRY. With me today, Mr. Chairman, is Maj. Gen. Gordon T. Gould, Director of Command Control and Communications in the Air Force.

Senator STENNIS. All right, General, we are glad to have you.

Mr. PERRY. The Department of the Air Force has been designated to represent the Department of Defense with respect to S. 2444, the proposed Alaska Communications Disposal Act and General Gould and I are here today in that capacity.

We both have prepared statements, but before we proceed with them, Mr. Chairman, we have a short motion picture covering the development and growth of our commercial logistics activities in Alaska of which we now hope to dispose, and their interrelationship with the military communications activities in Alaska. With your permission, Mr. Chairman, we would like to have the projectionist run that film at this time and then we will remove this screen.

Senator STENNIS. All right.

Mr. PERRY. Are you ready, Sergeant?

(The film referred to is run.)

Senator STENNIS. Gentlemen, I think that is a splendid picture. It is a very helpful presentation and it seems to have been put together mighty well.

Mr. Perry, we have already had your statement put in the record here, and to get at some of the issues to start with, let me ask why the Air Force wants to make this change?

Mr. PERRY. Mr. Chairman, the primary reason is that the provision of commercial communications services to the public is not a normal defense function, and we feel that we have reached a point where this furnishing of a service to the public can be accomplished by a commercial organization and should be no longer a responsibility of the defense establishment.

Senator STENNIS. Well, do the present facilities and service serve the purposes of the Air Force adequately?

Mr. PERRY. The present—

Senator STENNIS. So far as the Air Force is concerned.

Mr. PERRY. The present facilities in Alaska are, generally speaking, adequate to meet the defense needs. I would prefer to defer to General Gould, if I may, on that question for any more detailed response.

Senator STENNIS. All right. I will restate it.

General Gould, speaking solely as a military man—we want your judgment on this because this is part military and part commercial—is the communications system now operated by the Air Force rendering adequate service to the Air Force?

General GOULD. Yes, Mr. Chairman. The facilities in Alaska can really be broken down into two broad areas. One area is the Alaskan Communications System which is the primary agency that interfaces with the commercial market. This is operated by the Air Force.

Another element consists of those communications that are primarily used for defense purposes.

Senator STENNIS. Pardon me; the question was whether your present setup adequately serves the needs of the Air Force and other branches of the military.

General GOULD. Yes, sir.

Senator STENNIS. All right.

Now the next question is, Why do you want to make a change? Why do you gentlemen in the military want to make a change?

General GOULD. For two reasons, sir: First of all, as has been stated, we are using military personnel in the performance of duties which are not primarily military, and we would like to utilize these personnel in more military-type functions.

Second, there is a growing commercial market there, and our normal defense planning does not orient itself in the direction of a commercial market which puts us in the position of trying to meet demands which are not in consonance with our normal way of doing business.

Senator STENNIS. All right.

Did the Air Force originate the idea of disposing of this system or changing it as this bill provides?

Mr. PERRY. Senator, I believe—

Senator STENNIS. Just a minute, please; I was asking the gentleman now who speaks for the military, the Air Force.

General GOULD. Senator, the Army previously operated the ACS prior to 1962, and they also had proposed the sale of the ACS, so the Air Force was not the first, but the Air Force had—

Senator STENNIS. Now, the question is whether the Air Force—well, I will strike that word “originate.” Does the Air Force want this bill to be passed?

General GOULD. Yes, sir.

Senator STENNIS. You want to make this change?

General GOULD. Yes, sir.

Senator STENNIS. Why did you follow the proposal of the Army? Is it because you thought a change would better serve the Air Force?

General GOULD. Sir, I believe that the reasons are the same I gave before. We wanted to dispose of the commercial part for the same reason that the Army did; namely, that we would be operating a commercial establishment using military personnel.

Senator STENNIS. It is very unusual for the military to come in and request that they be divested of some function, because they naturally are jealous of it. They want to be sure that they will get the right kind of service, and they naturally feel they can do a good job. We are going to be asked questions by the full committee and on the Senate floor about these matters and I want to be able to answer them and give the judgment of a man who knows what he is talking about and who is speaking for the military. I am not concerned with what the Budget Bureau may say except for the money part of it. We want to know what you men who carry the load and have the responsibility out there think.

Do you think it will better serve the Air Force, this new system, than the one you have now?

General GOULD. I see no change in military service as it is constituted today.

Senator STENNIS. All right. Do you mean by that it will not serve the Air Force any better or worse; there will be no change?

General GOULD. Basically that is correct.

Senator STENNIS. Is that right?

General GOULD. In the long run though it should be better.

Senator STENNIS. Well, what do you mean the long run?

General GOULD. Well, there would be no immediate change that I could see in the service, Mr. Chairman, but looking ahead 4 or 5 years, I believe that the service will be better for both the military and the people of Alaska.

Senator STENNIS. Why do you say that?

General GOULD. Because there is a growing demand in the State of Alaska for communications which will stimulate building by commercial enterprises of additional facilities that are not there today, and which would constitute a redundant pattern of communications which could be used for defense purposes should the need arise.

Senator STENNIS. So you want to change your statement that there would be no change and no difference, and confine that to the immediate situation?

General GOULD. Yes, sir.

Senator STENNIS. And you give as your opinion—

General GOULD. Yes, sir.

Senator STENNIS (continuing). That 4 or 5 years from now there would be even better service to the Department of Defense, is that correct?

General GOULD. That is correct, sir.

Senator STENNIS. Now what about the service to the public at large in Alaska? How is this going to help them?

General GOULD. There is a growing market in the State of Alaska, a market which we in the military are not in a complete position to meet. It requires modernization and expansion of the system, a type of market that should be oriented as in the contiguous 48 States to commercial enterprise, and I believe that for this kind of situation commercial enterprise is better able to handle it than is the military.

Senator STENNIS. All right.

Mr. Perry, back to you here for a minute on this policy matter. What do you have with you as to the cost comparison to the Government? Do you have any figures on that?

Mr. PERRY. Mr. Chairman, I don't have precise figures on cost with me. I will be glad to provide those. In general, in past years the Government costs have exceeded by substantial amounts the revenues received from commercial service.

Senator STENNIS. Yes.

Mr. PERRY. This difference has gradually decreased until we have reached approximately a point now, sir, where the cost of operation equates to the revenues received.

Senator STENNIS. Well, it's almost gone out of style to even ask the question about what a thing is going to cost or whether it's going to save any money or whether it will cost more money, but I still think the question is relevant and ought to be answered. You don't mean to say you have come here to testify on this thing without figures as to how the Government is going to fare moneywise on the system you now have and what you propose to have.

Mr. PERRY. Well, the facilities which will most probably be sold in the event that S. 2444 is enacted are those owned by the Alaska Communications System. Those facilities had an acquisition cost slightly in excess of \$30 million. They have been in existence for varying periods of time. Their present value is, of course, somewhat lower than the acquisition cost.

The best estimate we can give now is for a potential revenue to the U.S. Government in the order of magnitude of \$30 million in the event of a sale, but this is only an estimate, sir, because we anticipate giving each of the interested commercial companies, and so far there are seven which have expressed an interest, an opportunity to tell us precisely which facilities they wish to purchase from the Government.

Senator STENNIS. Yes. All right. Well, it is encouraging that you are thinking in those terms.

I know you can't be accurate about this, and perhaps other witnesses have some figures prepared on it. Mr. Kendall, do you know of any witnesses who are prepared to speak on the figures today?

Mr. KENDALL. No, sir, I do not. Mr. Perry would be the one who would have those figures, I would think.

Senator STENNIS. We can't proceed and dispose of this bill until there is some kind of an estimate on it by competent people as to what the money difference is expected to be. You can give a high and a low, and a range of difference there, but we have got to have something. I am not going on the floor of the Senate and, if somebody asks me how much difference will this make in costs to the Government, say "Well, I don't know."

Mr. PERRY. Well, I will be happy to provide you some more precise figures, Mr. Chairman.

Senator STENNIS. I think you ought to try to, and so should the Department of Defense, the military, and the Budget Bureau. Mr. Kendall, you notify the Budget Bureau that we want some kind of estimation on this, apart from the Department of Defense, to see what different agencies think about it.

Senator Bartlett, I know you are interested in that because you will be asked questions on the floor also, and it is only right that the Congress should have this information.

Now, what kind of a guarantee would the Department of Defense have if they let some agency have this property? What kind of an arrangement do you contemplate? Suppose it turns out to be unprofitable to them or, even if it is profitable, what kind of a guarantee and what are you relying upon to insure adequate service over the system that you dispose of?

Mr. PERRY. Mr. Chairman, predominantly the company which would take over the ACS operation will be providing communications for the general public. Only a very small percentage of their effort would be the handling of Department of Defense communications as we anticipate it.

Consequently, we believe that the predominant guarantee of service to the public would come through the regulatory actions taken by Federal Communications Commission, in the case of interstate operation, and by the State of Alaska in the case of intrastate operation.

Senator STENNIS. In other words, you think the volume will be sufficient that it will support the operation generally, as it does in other States.

Mr. PERRY. I believe so, Mr. Chairman.

Senator STENNIS. And it wouldn't take a special setup for Alaska because of its great mileage, great distances and relatively sparse population; is that correct?

Mr. PERRY. We do not believe that any special arrangements should be necessary, Mr. Chairman.

Senator STENNIS. So you are relying upon the general business operations?

You say you have seven prospective bidders.

Mr. PERRY. That is correct, sir. I have attached to my prepared statement—

Senator STENNIS. Who are they? Do you have them named in your statement here?

Mr. PERRY. They are not named but there are letters of each of them attached to my prepared statement.

Senator STENNIS. Well just give their names here.

Mr. PERRY. The Western Union Telegraph Co.

Senator STENNIS. All right.

Mr. PERRY. The Continental Telephone Corp.; Western Union International, Inc.; RCA Communications, Inc.; the Alaska Telephone Association; General Telephone and Electronics Corp.; and ITT World Communications, Inc.

Senator STENNIS. Well, that is a very formidable list. Do they say they propose to buy all of it?

Mr. PERRY. All of them have indicated an interest in participating in some or all of the system.

Senator STENNIS. Yes. It may be more or less of a family affair between them; it could work out that way; is that right?

Mr. PERRY. It is very possible that more than one company would take part in this; yes.

Senator STENNIS. Well, your bill seeks to authorize the disposal of all or any part of the Government-owned long-lines communication

facilities in Alaska. Couldn't you make that all or nothing; that is, provide that they take all or nothing? What's that situation? I don't know. I am asking for information.

Mr. PERRY. Mr. Chairman, the entire Government-owned system in Alaska cost approximately \$277 million to install. We do not believe that any private corporation would be willing to pay the full fair value of that entire system unless the U.S. Government did enter into some form of special guarantee. Probably such a guarantee would have to take the form of a long-term contract guaranteeing to purchase Government service from the commercial operator.

It is our opinion that the interests of the Government will be better served by selling only that part of the facilities which are predominantly commercially oriented, and from which the purchaser can expect to recover his investment through the normal operation of a commercial system.

We anticipate that in order to allow that operator to provide service to the general public throughout the entire State of Alaska, it will be necessary, using the authority of this act, to transfer by lease or some arrangement less than a sale, certain capacity in the Government-owned communications system, generally referred to as White Alice System.

Senator STENNIS. The What?

Mr. PERRY. The White Alice System, our name for the system of military communications built within the last 10 years. The commercial operator will need to use part of the White Alice capacity so that it can serve the public throughout the entire State, but that use will be subject to a right of preemption by the Government in the event of an emergency.

Senator STENNIS. So you are proposing to sell that which is commercially oriented and keep all that is primarily military?

Mr. PERRY. That would be our expectation, sir.

Senator STENNIS. General, suppose the proposal was to sell all of it, what would be the Air Forces' opinion about it then?

General GOULD. I think we would have questions regarding it, Mr. Chairman.

Senator STENNIS. That means you would object?

General GOULD. Yes, sir.

Senator STENNIS. Is that right? All right.

Well, that explains what I said a while ago about the military coming in and asking to dispose of something, because I really hadn't caught the point that you were not going to consider selling any except that which is commercially oriented.

Well, what's going to be the comparative cost now of the Government operation of this system after the sale and now, that is, for what you keep? Mr. Perry, you doubtless don't have any figures ready on that but we want the record to show something about what it costs now to operate the part that you propose to keep, and then a column showing what you think it will cost to operate the part you propose to keep after the sale.

Mr. PERRY. I will be glad to furnish those figures sir. The order of magnitude of the difference in terms of annual appropriations should be approximately \$7 or \$8 million, which is roughly the amount of the current annual appropriation for ACS operation, the ACS being the commercially directed operation in Alaska. Since we would be turning

ACS over to a purchaser, presumably we would no longer need appropriations for that purpose.

On the other hand, the revenues from commercial operation, which are currently deposited in the Treasury as miscellaneous receipts, would also stop coming to the Government. We believe the net effect of this would be approximately to balance out the two changes.

Senator STENNIS. All right. You mean the Government would be left about like it is now so far as money in and out is concerned?

Mr. PERRY. That is correct, sir.

Senator STENNIS. It's fair to say then that, as far as the Air Force is concerned, it is not giving up anything. It is just getting rid of that part of the system that serves the civilian economy; is that right?

Mr. PERRY. That is correct.

Senator STENNIS. Do you agree to that, General?

General GOULD. I do, sir.

Senator STENNIS. All right. We can say to the public and to the Congress that, as far as the military department is concerned, they are not giving up anything and they will have as much control over the transmission of their messages as heretofore; that it wouldn't cost any more or any less generally; that you are just getting rid of an appendage which is generally described as service to civilians; is that a fair statement?

General GOULD. I would agree to that as a general statement, sir. There are details—

Senator STENNIS. Yes, I know it will vary some according to details. Is that correct, Mr. Perry?

Mr. PERRY. That is correct, Mr. Chairman.

(The following information was furnished for the record:)

ESTIMATED OUTGO AND INCOME UNDER THE PRESENT SYSTEM AND THE ONE WE EXPECT TO EXIST AFTER SALE

I. FISCAL YEAR 1965 EXPERIENCE

A. ACS revenue

1. Gross telephone message revenue-----	\$14, 681, 755. 25
2. Gross telegraph revenue-----	1, 035, 018. 24
3. Gross leased line and other revenue-----	1, 633, 102. 96
Total gross revenue-----	17, 349, 876. 45
Less:	
4. AT&T land haul (beyond Seattle)-----	2, 239, 164. 39
5. AT&T submarine cable-----	3, 474, 674. 66
6. Land haul in Canada-----	31, 606. 68
7. Local Alaskan companies share-----	1, 278, 858. 16
8. Western Union Telegraph share-----	277, 135. 40
Total payout-----	7, 301, 439. 29
9. Uncollectable and adjustments-----	17, 022. 82
Total reduction from gross revenue-----	7, 318, 462. 11
10. Net ACS revenue-----	10, 031, 414. 34
11. Value of service to DOD and other Government agencies furnished by ACS without charge-----	(1, 033, 598. 91)

B. ACS operating costs, fiscal year 1965

1. The ACS appropriation for fiscal year 1965 was expended as follows:	
a. Civilian personnel.....	\$5, 879, 000. 00
b. Travel and transportation.....	234, 000. 00
c. Rents, utilities, services.....	482, 016. 00
d. Civil engineering, equipment maintenance, etc.....	416, 000. 00
e. Supplies and materials.....	642, 000. 00
f. Alaska railroad circuits.....	176, 141. 00
Total.....	7, 829, 157. 00
2. Additional cost elements:	
a. Military personnel.....	1, 060, 056. 00
b. Depreciation on ACS personal property.....	901, 161. 00
c. Equivalent rental value of ACS real property.....	358, 187. 00
3. Major facilities made available to ACS without charge:	
a. White Alice system circuits.	
b. Aleutian stretchout circuits.	
c. BMEWS rearward circuits.	
d. FAA circuits.	
e. Office, maintenance and waterhouse space in Government buildings.	

II. POSSIBLE CHANGES IN REVENUE AND COSTS UNDER FUTURE COMMERCIAL OPERATION

A. Revenue

1. *Gross Revenue.* Tab 1 indicates that the volume of telephone messages has increased by more than 10% for the first 10 months of FY 1966 compared to the first 10 months of FY 1965. Telegraph message volume has also increased slightly. This increase in volume of business can be expected to continue.

2. *Government Business.* The commercial operator will, of course, be paid for all service furnished to the Government. In FY 1965 just over \$1 million of such service was furnished by ACS without charge.

3. *Land Haul Costs.* Tab 2 shows typical telephone rates from Seattle to other points in the 48 contiguous states in comparison to corresponding charges on calls to and from Alaska. Probably some revision of land haul charges can be anticipated, particularly as service to Alaska grows in volume and more modern equipment is installed.

4. *Submarine Cable Costs.* A land-line route from Ketchikan to Seattle has now become available. The competition between this line and the AT&T submarine cable should result in service for the Alaskan long-lines operator at substantially less than the FY 1965 submarine cable charge.

5. *Local Alaskan Companies Share.* Some downward adjustment can probably be anticipated in the amount per long distance call paid to the local company in the city where the call originates, particularly as the volume of long-lines business increases since a part of the local company expenses are fixed rather than variable.

6. *Rates.* The present intrastate and interstate rates for Alaska are summarized in Tab 3 (with interstate rates for Hawaii shown briefly for comparison). The revenue factors described in 1. through 5. above, should all tend to increase the potential net revenue to the Alaskan long-lines operator and thus enable either rate reductions or increased expenditure for modernization and expansion of the long-lines system, or both. These actions, in turn, should accelerate the growth in volume of business.

B. Costs of Operation

1. *Personnel and Administrative Costs.* To the extent that the future long-lines operator can consolidate administrative and support activity for the Alaskan long-lines operations with similar activity for other parts of the company's business, a reduction in personnel and administrative costs from those experienced in FY 65 should be possible. Similarly, as Alaskan long-lines equipment is modernized, a reduction in the ratio of personnel costs to volume of business should result.

2. *Materiel and Construction.* Increased activity to expand and modernize Alaskan long-lines equipment will result in substantially higher expenditures for materiel and construction than the ACS has been incurring in the last several years.

3. *Depreciation and Amortization.* A commercial operator will have to pay full fair and reasonable compensation for any capacity which it uses in long-lines facilities retained by the Government. The amount of this compensation will depend on the extent of use of the facilities. The Department of Defense cannot estimate what this extent of use will be; that will be determined by the commercial operator under the regulation of appropriate federal and state regulatory agencies. Total FY 1965 costs to the Government of operating the White Alice, BMEWS and Aleutian Stretchout systems, which represent the bulk of the facilities which the Government will probably retain, are reflected in Tab 4. These costs, in future years would be apportioned between commercial use, Government use, and defense standby capacity, with appropriate rates set for commercial use.

III. IMPACT OF SALE ON GOVERNMENT COSTS

A. Government Gains

1. Sale of the commercial long-lines business in Alaska to a private operator will end the need for annual appropriations in direct support of the ACS. In FY 1965 these were \$7,829,157 for operation and maintenance plus \$1,060,056 for military personnel assigned to the ACS, a total of \$8,889,213.

2. Cost of Government operation of the White Alice, BMEWS, and Aleutian Stretchout systems will remain essentially the same whether the ACS is sold, or not; however, if the ACS is sold, the private operator will pay full fair and reasonable compensation to the Government for capacity in those Government systems, whereas such capacity has heretofore been furnished to the Government operated ACS without charge.

3. The Government will receive current fair value for facilities sold to the private operator (or if not needed for future commercial operations, sold under surplus property disposal procedures). The ACS personal property is currently depreciating at a rate of about \$900,000 per year, and ACS real property has an annual rental value of about \$360,000 per year.

B. Government Losses

1. Annual payments into the Treasury from ACS will end. For FY 1965 the payment was \$10,031,415.

2. The Government will have to pay for all service received from the private operator. In FY 1965 Government agencies received service without charge from the ACS worth \$1,033,599.

On balance the five factors listed above will probably result in a small dollar benefit to the Government, with the exact amount of that benefit depending on how much capacity in the Government owned circuits the new private operator leases.

STATEMENT OF JOHN W. PERRY, DEPUTY FOR TRANSPORTATION AND COMMUNICATIONS, OFFICE OF THE ASSISTANT SECRETARY OF THE AIR FORCE, INSTALLATIONS AND LOGISTICS

(Film.)

Mr. Chairman, with that pictorial background I would like to describe for you what we hope to accomplish if S. 2444 is enacted.

The proposed Alaska Communications Disposal Act would authorize the Secretary of Defense or his designee to transfer by sale, exchange, lease, easement or permit any property and franchise rights respecting any or all long-lines communication facilities in or to Alaska under the jurisdiction of the Federal Government. Such transfers are to be made only with the advise, assistance and consent of any other agency concerned, and after approval of the President. Such transfers will not be made unless the Secretary of Defense or his designee determines that:

(1) The United States does not need to retain for defense purposes the property rights involved in the transfer;

(2) The transfer is in the public interest;

(3) The recipient is prepared and qualified to provide the communications services involved without interruption; and

(4) The facilities will not be owned, operated or controlled by a person who would legally be disqualified by the Federal Communications Commission from holding a radio station license under the Communications Act of 1934 as amended.

The franchise rights which we seek to transfer are the rights to engage in the long lines, and in two cases local, communications services for the general public in Alaska—which were described in the film just shown. To carry out such franchise rights, however, the commercial operator will need to have at least limited use of long-lines facilities now owned by the Government throughout all of Alaska—a use which can be made possible in each case through the most appropriate of the forms of transfer which S. 2444 would authorize—sale, exchange, lease, easement or permit. Where Government use of any such facility may also be required, any authorization for commercial use would be expressly subject to Government pre-emption in the event of an emergency.

ALASKA COMMUNICATION SYSTEM

The Alaska Communication System (ACS), formerly operated by the Department of the Army and transferred to the Air Force on July 1, 1962, is not a legal entity such as a Government corporation, but is rather a military organization subject to the same rules and regulations as other Department of the Air Force activities. Headquarters of the ACS is located in Seattle, Washington, with a Deputy Commander, in charge of field operations, in Anchorage, Alaska. The ACS is operated by approximately 700 civilian employees and 220 military personnel.

The Act of May 26, 1900 (48 U.S.C. 310) authorized the Army to transmit commercial business over the military lines. As the population of Alaska increased and the commercial activities expanded, the civilian needs have required an ever-increasing proportion of the facilities of the system.

The ACS, consisting of 22 attended stations and 17 unattended repeater stations, now furnishes communication services in Alaska and between Alaska and the Continental United States comparable to those provided by the long-line carriers in the Continental United States. The system installs, operates, and maintains radio, wire, and submarine cable facilities providing service to private individuals and to commercial and Governmental users. Services including long distance and rural telephone, telegrams, telegraphic money order transfers, commercial leases of communication channels, press transmission, broadcast relay, "bush phone" radio service and ship-to-shore communications.

The system interconnects with the American Telephone and Telegraph, Pacific Northwest Telephone and Telegraph, and Western Union Telegraph Companies at Seattle; the Canadian National Telecommunications and British Columbia Telephone Company in Canada, and to municipal and privately-owned city telephone exchanges in Alaska. Some facilities used by the system are owned by other Governmental agencies but used by the ACS under interagency agreements. Since 1954 the ACS has been interconnected with the White Alice and BMEWS Rearward Communications systems, which now provide the major portion of the long lines used for transmission of ACS messages.

WHITE ALICE

The White Alice communications system, the greater part of which was built during 1955 and 1956, is the largest and most extensive of the long-lines facilities affected by this legislation. It consists of 33 communications stations located throughout Alaska which provide communications to and between the fifteen radar sites which comprise the Alaska Air Defense System, and also provide long-lines telephone and telegraph channels for other military bases, for the ACS, the Federal Aviation Agency and other Government agencies.

The system covers more than 3000 route miles and extends into remote and isolated areas of Western and Northern Alaska. It carries an average of 60 voice channels between stations, over tropospheric scatter and microwave, with individual links equipped to provide from 24 to 132 voice channels according to the need at each location.

A typical tropospheric scatter station consists of an equipment building and four or six large antenna structures. The equipment building of 7500 square feet, houses radio equipment, channel derivation equipment and electric power generators, and includes space for parts storage and maintenance. Sites which are not located adjacent to military installations include dormitory space for the station operators.

A typical microwave station consists of a smaller equipment building and two steel antenna towers.

The White Alice system does not include local distribution systems to subscribers as it is purely a long-lines system. Communications service is extended

from White Alice sites to nearby military bases by underground cable or by short links of microwave radio.

In approving the plan for the White Alice system the Department of Defense and the Congress included provision that the system design would include sufficient capacity to provide service to other government and civil agencies at each of the locations involved. To this end, the White Alice system has been interconnected with the ACS and FAA systems. Paralleling and obsolete facilities of the ACS and FAA were retired as the White Alice routes came into service.

THE ALEUTIAN STRETCH-OUT SYSTEM

Shortly after the installation of the original White Alice communications system, Air Defense requirements resulted in the construction of a forward propagation tropospheric scatter system with six sites from King Salmon to Nikolski along the Aleutian chain. This system was constructed as a westward extension of the Distant Early Warning Line that spans across Northern Alaska and Canada. Still later (1960) a forward propagation tropospheric scatter line was constructed from Nikolski to Adak and Shemya as part of the White Alice system.

THE BMEWS REARWARD COMMUNICATIONS SYSTEM

The largest addition to the White Alice system was the BMEWS Rearward Communication System consisting of two long-line routes extending from the BMEWS II site at Clear, Alaska to the Alaskan borders. One is a microwave route extending to the Canadian border and connecting with the Canadian National Railroad microwave facilities. The other is a microwave route to a point near Anchorage and a Forward Propagation Tropospheric Scatter (FPTS) radio route from there to southern Alaska.

FEDERAL AVIATION AGENCY FACILITIES

In 1939 the Congress appropriated funds for the then Civil Aeronautics Administration to extend the Federal Airways System to and within Alaska. Because of the extent and the specialized type of communications requirements of the CAA (now FAA) it was decided that the CAA should undertake the establishment of its own communications system, designed for and devoted exclusively to aeronautical needs. Conventional communications methods were found to be incapable of meeting aeronautical requirements in Alaska. The initial installations were made at the most important points in Alaska just prior to the beginning of World War II. With the development and expansion of aircraft operations, the availability of continuously operating air navigation facilities became mandatory. The communications system had to be expanded and improved from the reliability standpoint.

The expansion occurred about the time World War II began. The added impetus brought about by the tremendous increase in military air activities and the large scale operations undertaken by civilian aircraft operators under military contracts, demanded still further expansion and improvement of the aeronautical communications system.

As a result, the close of the war found a rather extensive communications network being operated by the FAA that, in some cases, paralleled networks operated by the Alaska Communication System. With the return to peacetime footing and in the years since 1952 the FAA long-line requirements have been met with the ACS and Air Force White Alice and BMEWS facilities. Concurrent with the activation of the BMEWS system in 1961, the major portion of all FAA long-line requirements were being fulfilled over the Air Force Systems.

The Department of Defense has for several years sought to obtain authorization from the Congress to transfer the facilities of the ACS, and interests in the other Government-owned long-lines facilities in Alaska, by sale, lease or other appropriate method with the objective of having one or more commercial organizations provide the long-lines communications service for the general public in Alaska. DOD feels strongly that such authorization to transfer facilities is necessary if a satisfactory solution to the problem of providing adequate long-lines service to meet the ever growing needs of the general public in Alaska is to be achieved. Moreover, the Department of Defense believes that a transfer of this commercial communications business, and the facility rights necessary to carry on that business, can be accomplished on terms beneficial to all parties concerned and fully protecting the continuing interests of the national defense.

The Department of Defense has recognized for some time that operation by the Department of the Air Force of long-lines communications services for the general public in Alaska left much to be desired, both from the point of view of the people of Alaska and because of the burden on the DOD in providing these services. This less than satisfactory situation has, in the past, been the almost inevitable result of two factors: In the first place, the provision of long-lines service for the general public in Alaska has not been attractive to private business because the relatively small population of Alaska, and the relatively great distances involved, prevented full recovery of costs at rates practicable for such services; and secondly, the DOD long-line facilities in Alaska and between Alaska and the forty-eight contiguous states have in almost all cases been initially selected and emplaced to meet defense requirements, not public commercial requirements, and facilities needed uniquely for commercial operations have been forced to compete for priority in the larger arena of defense communications needs.

In the past, the prospects for revenue from commercial operations have not been sufficient to make the commercial long-lines business in Alaska attractive to commercial firms, at least in the absence of a firm contractual commitment by the United States Government to continue use of the facilities for a substantial period of time. The volume of commercial business, however, has increased steadily in the past several years, and it is now practicable to consider commercial operation of the long-lines services for the general public in Alaska on a profitable basis.

Although a commercial firm providing statewide long-lines communications service to the general public in Alaska, to the same extent that the Air Force is providing such service today, will need to have limited use of the Government owned communications facilities throughout the entire State of Alaska, it does not follow that outright sale of all of those facilities would be appropriate. On the Government side there will be a substantial continuing need for communications to meet national defense requirements, a subject which General Gould will cover in detail in a few minutes. From the point of view of potential commercial operators, purchase of the entire Government-owned communications complex in Alaska would probably be considered to involve an unwarranted investment risk. That total complex can be valued, in terms of replacement costs, at approximately 300 million dollars. Preliminary analysis indicates that a commercial investment of this magnitude could be justified only if the United States Government entered into a long-term contractual commitment guaranteeing revenues to the operator which during the period of the commitment would be sufficient to recoup the entire price paid for the facilities.

The Department of Defense does not expect to enter into any long-term contracts for the purchase of Government communications services from the commercial operators using the facilities transferred to them by the Government, nor would the Government expect to assume any termination charge liabilities with respect to such facilities.

Consequently, the Department of Defense plans to employ three interrelated procedures in implementing this legislation if enacted:

1. The sale of some facilities, particularly those used predominantly or entirely for providing communications services to the general public in Alaska.
2. The transfer of lesser property interests, probably by leasing, with respect to facilities used predominantly for defense requirements, or having substantial excess capacity for defense contingency requirements. These facilities would continue to be owned, and usually to be operated, by the Department of Defense with *capacity* leased to the commercial communications operator to meet his needs at appropriate fair and reasonable rates.
3. The Department of Defense has already authorized the Air Force to develop procedures for industrial funding of the ACS.

The available data developed in connection with industrial fund planning would be useful in establishing the appropriate fair and reasonable sale prices and leasing rates to assure that the Government is adequately compensated and that the purchaser does not receive a windfall. If communications services for the general public in Alaska are provided by one or more private commercial operators, the industrial fund concept can continue to be used with respect to the facilities remaining under Government ownership. If appropriate sale or leasing arrangements cannot be consummated at rates and prices fully protect-

ing the best interests of the U.S. Government and the people of Alaska, the ACS could continue to provide communications services for the general public, but on an industrially funded basis. The United States Government would then clearly not be bearing a part of the expense of services for the general public, and on the other hand revenues derived from services to the general public would be utilized fully to pay the expenses of such services. Hopefully, those revenues would also provide for appropriate modernization and expansion of facilities. Similarly, the propriety of reducing or increasing rates would be more evident under the constraints and concepts of an industrially funded operation. Such a solution would not, however, get the Department of Defense out of the non-defense business of providing commercial-type service to the public. Disposal of this commercial business to a commercial operator is considered far preferable if adequate terms and conditions for the transfer of the associated property rights can be negotiated, as we feel confident they can.

The disposal of the Government-owned commercial long-lines business and facilities would, then, accomplish three main objectives. In the first place, it would relieve the Government of a commercial-type operation, the performance of which is not normally a military or Governmental function. As I have previously indicated, the Department of Defense does not want to remain in the commercial long-lines communications business in Alaska if the public can obtain the required services from private enterprise under fair rates. Secondly, the disposal would result in benefit and savings to the Government by (1) recovering the adequate fair value of facilities as to which the Secretary of Defense or his designee determines that the Government need not retain title for national defense purposes, (2) receiving an adequate fair return for the use of facilities retained by the Government for national defense purposes, where excess capacity is available in nonemergency periods, (3) eliminating the need to appropriate substantial sums annually for the continued development, expansion, operation, and maintenance of the facilities, and (4) at the same time providing a new source of tax revenue. Finally, disposal of this commercial operation would release military personnel to perform tasks that are strictly military.

At this point I should mention that, in addition to the facilities to which DOD will decide to retain title because of national defense requirements, the communication facilities of the Alaska Railroad, which are owned by the Department of Interior, will not be sold at this time because they are an integral part of the railroad's operations and will be needed by the railroad. S. 2444 is, however, broad enough to permit their sale at a later date if events make their disposition desirable. Notwithstanding this retention of title, circuit capacity excess to the railroad's need could be leased to the purchaser of the commercial long-lines system if it is found to be to the advantage of the Government to do so.

Also, the sale of base telephone facilities is not included in the proposed legislation, these facilities will be retained. Similarly, at locations where the Federal Aviation Agency must continue to maintain airfields or navigational aids, only the equipment which provides long-lines service will be considered for transfer.

I would like to discuss in more detail now some of the concepts which we expect to apply in disposing of our commercial long-lines activities and associated facilities in Alaska if S. 2444 is enacted. I have referred several times to the establishment of a fair and reasonable price for the sale or lease of facilities involved. The Department of Defense considers the requirement for adequate consideration to be a keystone to action under S. 2444. Unless the Department of Defense can obtain adequate consideration for the facilities proposed to be purchased, leased or otherwise acquired by the prospective commercial operator or operators, the commercial business will not be sold; we are prepared, in that event, to retain the ACS and operate it on an industrially funded basis.

The Air Force has made available, for inspection by all interested commercial operators, detailed information on the volume and nature of the commercial long-lines business in Alaska and the facilities used by the Air Force to handle that business. The operators were told about the various arrangements that might be entered into so that the commercial operators would be capable of providing all long-lines communications for the general public in Alaska. Seven commercial operators have already advised Air Force officials that they are interested in the business of providing commercial long-lines services to the general public in Alaska if congressional authority to sell appropriate physical assets is obtained, copies of the responses from those companies are attached to the printed copies of my statement.

With this degree of interest in commercial operation of the long-lines business in Alaska we believe that there is every likelihood that we can obtain adequate compensation for the facilities to be transferred. If, on the other hand, offerors, knowing of the interests of other companies, propose prices in excess of the fair and reasonable value of the facilities in question, such excessive prices would increase the investment rate base of the successful company and thus cause unnecessarily high rates, in which case the general public placing telephone calls, and sending telegrams, to and from Alaska would be the ultimate payers of the excess part of the price. In protecting the public interest as required by section 202 of S. 2444, it becomes our duty to direct the competitive impetus which exceeds the fair and reasonable value of the facilities involved into a channel of improved public service rather than excessive prices.

If the Alaska Communications Disposal Act is enacted, therefore, we intend to use our industrial fund preparatory work to establish in advance the adequate compensation which we consider the Government should receive for each of the facilities we are willing to sell, lease or otherwise transfer, using the original acquisition cost, the degree of obsolescence, the probable replacement cost and other appropriate guidelines. We will establish that adequate compensation in each case as an upset price below which the Government will not transfer the property. In situations where more than one form of transfer may be appropriate, such as sale or lease of capacity, adequate consideration levels will be specified for each type of transfer, leaving each offeror free to choose the form of transfer considered most desirable.

In seeking to achieve this goal, the Department of Defense, in addition to requiring adequate compensation for all facilities to be sold, leased, or otherwise transferred to the successful offeror, will require each offeror to specify the schedule of rates to the public proposed for the first year of operation, and to specify the action it would take to modernize, expand or otherwise improve the service to the public before or during the first year of operation. The offerors will be advised, when offers are formally solicited, that after assuring the return to the Government of adequate compensation for facilities, further evaluation of offers will turn, to a substantial degree, on the relative public interest factors as evidenced by the proposed rates and operating improvements.

In evaluating the public interest aspects of implementing the Alaska Communications Disposal Act the Department of Defense would hope to have the advice and assistance of other federal agencies, including specifically the Federal Communications Commission and the Federal Field Committee for Development Planning in Alaska, and the advice and assistance of appropriate State and local officials designated by the Governor of Alaska. Naturally, no transfer, by sale, lease or other means, of any facility of the Federal Aviation Agency will be accomplished without the consent of that Agency as required by section 201 (1) of the Act.

To enable offerors to propose firm rates for commercial operations, we recognize that it will be necessary for us to tell them what we will charge for capacity leased to them on facilities retained by the Government. We recognize also that under the Alaska Communications Disposal Act we will be required to obtain adequate compensation for the Government for capacity leased to a commercial operator, just as the Act requires adequate compensation for facilities sold. We fully intend, therefore, that the lease charge will, in every case, represent the full, fair and reasonable value of the long-line capacity furnished to the commercial operator. To this end, upon enactment of S. 2444 we will undertake a careful analysis of both the acquisition costs and the annual costs of operating and maintaining those facilities which will, or may, be retained by the United States Government, so that we can establish lease charges which adequately compensate the Government for its costs.

We will recognize, however, that the Government-owned communication facilities in Alaska were for the most part employed to meet early warning requirements and other defense needs which would peak only in contingency periods. Thus many of the defense communication facilities in Alaska have substantial standby capacity, unused in normal times. It would be eminently unreasonable to require the operator of a commercial communication service for the general public in Alaska to absorb a portion of the costs properly applicable to this standby capacity to the extent that it exceeds the standby or excess capacity which might be expected in a similar facility operated exclusively for commercial purposes.

In establishing lease charges, therefore, we will assume a normal utilization of the facility and allocate to the commercial operator only that part of the

total costs associated with the facility representing the ratio between his actual use of capacity and the total use which might be anticipated where similar facilities are installed because the volume of commercial demand justifies the installation. In this way the Department of Defense will bear the costs properly chargeable to its standby communications requirements in Alaska. Moreover, we recognize that in some cases the Department of Defense is incurring costs to assure the high degree of reliability necessary for defense needs, which costs would not need to be incurred at all if the same facility were operated at normal commercial standards. These costs also should, we believe, properly be charged to the Department of Defense requirement, not to the commercial operator.

Finally, in requiring the successful offeror or offerors to provide commercial long-lines communications service throughout the entire state of Alaska to at least the same extent that the Department of the Air Force provides such service today, we are imposing a requirement for commercial operation over some facilities where the volume of commercial business will be very small indeed. With respect to facilities where the possibility of very low commercial utilization exists, we would expect to specify both lease charges for dedicated channels, that is, channels the entire capacity of which would be available to the commercial operator, and lease charges based on partial usage of channels, for example charges per message minute. Such message minute charges would be established, however, at a level which would encourage the commercial operator to switch to a dedicated channel basis whenever volume of commercial business over the channel became substantial.

To summarize our objectives under the proposed Alaska Communications Disposal Act—we would expect the buyer or buyers under the Act to take over all dealing with the general public in Alaska concerning long lines or local communications services now furnished by the Federal Government. In addition, we would expect the buyers to assume responsibility for all relationship with local communication companies and interconnecting long-lines companies with respect to commercial communications. Secondly, the buyers must continue all present service, if desired by the customers, unless an appropriate regulatory agency allows suspension or unless no procedure has been established to regulate proposed suspension of service within one year after transfer of responsibility from the Department of Defense to the new commercial operators.

We would expect the commercial operator to purchase all communications facilities now used by the Alaska Communications System predominantly for commercial communication purposes if the commercial operator expected to utilize those facilities. (In addition, the commercial operator may purchase non-communication facilities associated with the commercial communications operations, for example, vehicles, houses occupied by Government personnel in the ACS, etc.) The commercial operator also may purchase other communications facilities which are used to a significant extent, though not predominantly, for commercial communications; however:

a. The fair market value of such facilities will be established on the assumption that there would be sufficient commercial demand to provide efficient use of those facilities, regardless of the extent of actual commercial use at this time; and

b. The Government would have to be assured that the quality of service to the Government would remain satisfactory and that the cost of obtaining such service would compare favorably to the cost of Government operating of the facility in question less revenues which might be anticipated from lease of capacity in that facility to the commercial operator.

Finally, we recognize that the commercial operator, if it desires, may offer, to buy still other communications facilities in Alaska, facilities used predominantly for military purposes with only a small amount of commercial use. Section 202(1) of the Act, which precludes transfer unless the Secretary of Defense or his designee can determine that there is no need to retain the property involved for national defense purposes, will probably preclude sale of such facilities unless assured commercial reliability meeting national defense standards, coupled with a clearly apparent cost saving, establishes that such a determination is appropriate. General Gould will discuss the relationship between this Act and the continuing national defense requirements for communications within and to and from Alaska in just a minute.

Before closing, however, I would like to discuss one more factor involved in the Alaska Communications Disposal Act which we in the Department of Defense consider to be very important. The ACS today has 725 civilian employees, 537 based in Alaska and 188 in Seattle where the Headquarters of the ACS is

now located. If the commercial long-lines communications business in Alaska is sold to private operators, these affected employees will be entitled to all the benefits of the Department of Defense priority placement program. The Air Force will make every effort to arrange continued employment with the private purchaser for all of those Air Force civilian employees in the ACS who desire such employment. If this type of arrangement is not feasible, all career and career-conditional employees whose jobs are eliminated as a result of sale of the ACS commercial long-lines activities will be offered another job opportunity with the Government. If the new job is within the Department of Defense and requires a move to another location, the moving expenses will, of course, be borne by the Government. In short, we will do everything in our power to avoid hardship and assure job security for those civilian employees who will be affected by enactment of this legislation.

I will be happy, Mr. Chairman, to answer any questions you may have; however, you may wish to hear General Gould's statement first and then address questions to the entire scope of Department of Defense statements.

THE WESTERN UNION TELEGRAPH CO.,
GOVERNMENT COMMUNICATIONS SYSTEMS,
Arlington, Va., March 14, 1966.

Col. R. H. SERVICE, USAF,
Deputy Director of Command Control and Communications,
Department of the Air Force,
Washington, D.C.

DEAR COLONEL SERVICE: Western Union has reviewed your letter of January 14, 1966, and the material accompanying it regarding a possible future disposition of the telecommunications system in Alaska.

We are interested in providing record communications services in Alaska either directly or in joint arrangement with another common carrier. However, any final evaluation of Western Union's interests must depend on the disposition made of the legislation presently pending. It is our view that until such legislation is disposed of that detailed study of operating costs and revenues would be premature.

Very truly yours,

M. LLOYD BOND.

CONTINENTAL TELEPHONE CORP.,
St. Louis, Mo., March 17, 1966.

Col. ROBERT H. SERVICE,
Deputy Director of Command Control and Communications, Department of the
Air Force, Headquarters of USAF, Washington, D.C.

DEAR SIR: Your letter of January 14, 1966 transmitted certain information and data related to the Alaska Communication System. This letter invited interested parties to submit information relating to entering the commercial communications business in Alaska.

After examining the presently available data, and preliminary to expected Congressional hearings in the matter, and in anticipation of further examination of A.C.S. operations, Continental Telephone Corporation wishes to state:

1. That its operating subsidiary or subsidiaries are common carriers within the provisions of Section 3 of Title I of the Communications Act of 1934, as amended.
2. That these subsidiaries are interested in acquiring by purchase the Alaska Communications System properties used to furnish telephone, telegraph, radio and ship to shore service.
3. That in the event of such acquisition, the acquiring subsidiary or subsidiaries of Continental will be under the jurisdiction of regulatory commissions or bodies in the matter of intrastate or interstate rates and services and the extensions of service.
4. Subsidiaries of Continental use equipment which is compatible with that currently in use in the A.C.S. properties and as generally used in the communication business.
5. Subsidiaries of Continental acquiring the A.C.S. properties will assume the commercial contracts of the seller.
6. Subsidiaries of Continental would, in connection with acquisition of the A.C.S. properties and the subsequent operation thereof, give consideration to

continuing the employment of employees of the A.C.S. insofar as practicable and mutually desirable, including the amount of prior service under civil service regulations.

We are currently engaged in further studies of this matter and will be prepared to further discuss this matter or make a definite proposal at a time agreeable to you.

Sincerely yours,

G. WARREN SCHOMAKER,
Vice President.

WESTERN UNION INTERNATIONAL, INC.,
New York, N.Y., April 12, 1966.

Col. ROBERT H. SERVICE,
Deputy Director of the Air Force, Deputy Director of Command Control and Communications, Washington, D.C.

DEAR COLONEL SERVICE: This is in reply to your letter of 20 January 1966 addressed to Mr. Catucci relative to our interest in operating communications services in Alaska.

We have studied the extensive data which you were good enough to furnish and we were further briefed regarding the Alaskan Communications System by Colonel Dewar who was most helpful in this regard.

As a result of the information base compiled to date, we are most interested in entering the commercial communications business in Alaska and would therefore wish to pursue the matter further.

Sincerely,

J. G. MURRAY,
Vice President, Finance.

RCA COMMUNICATIONS, INC.,
New York, N.Y., April 13, 1966.

Col. ROBERT H. SERVICE,
Deputy Director of Command Control and Communications,
Headquarters, U.S. Air Force, Washington, D.C.

DEAR COLONEL SERVICE: Your letter of January 14, 1966 to Mr. Kent Keith, Manager DOD Marketing for the RCA Service Co., relative to the proposed disposal of ACS long lines communications facilities in Alaska has been referred to RCA Communications, Inc.

As an international communications carrier with over 45 years experience in providing communications services to all parts of the world and to ships at sea, RCA Communications is interested in the possibilities of handling long lines communications in Alaska.

Examination of the information which we have been able to assemble so far as to the prospects for rendering a profitable communications service to commercial users in Alaska is not conclusive. A more detailed study of system configuration, replacement of obsolete facilities, protection of the interests of ACS civilian employees, and many other important factors must be made. Accordingly, we are interested in pursuing this matter in the near future, including a survey of data available at ACS Headquarters in Seattle and a field trip to some of the ACS operating locations in Alaska. We understand that the Air Force has extended an invitation to RCA to make such an investigation.

Our preliminary review indicates that there are at least two alternatives which relate to the three categories of facility ownership and operation enumerated in your letter. The plans for lease and purchase configuration currently being considered by us may be summarized as follows:

Plan A

Under this plan RCA Communications would purchase the majority of ACS facilities used primarily to provide communication services to the general public. This includes real property and communications equipment at eighteen sites, including selected installations and toll centers at Juneau and Ketchikan, and various tributary trunk terminals used primarily for commercial services. To insure complete autonomy of the "White Alice" military system, only the switchboards would be purchased at the Anchorage and Fairbanks toll centers. Space for these switchboards would be leased from the Air Force in their present location.

Facilities at Tok, Delta Junction, and Glennallen are primarily for military use and would not be purchased, except for some equipment used for commercial services.

This plan also contemplates closure of the Seattle complex and relocating headquarters of the ACS operation to Anchorage.

Plan B

Plan B envisions the purchase by RCA Communications of all ACS facilities except those which the military may desire to retain, such as Tok, Delta Junction, and Glennallen. Under this arrangement we would be responsible for performing maintenance on approximately 500 circuits used for military purposes.

Both of these plans are designed to provide a distinct separation of the ACS as a commercial endeavor while enabling the Air Force to retain control of necessary tactical operating circuits. In either case, RCA Communications would expect to lease from the government whatever channel capacity in military systems may be required to support commercial operations.

As our study of the problem progresses we expect to have a better idea of what can be done to improve communications services for all the people in Alaska at reasonable rates. Provision of direct distance dialing facilities, telex and TWX services are high on the list.

We would appreciate being advised of any adjustments or refinements to the scope of this transaction that may be effected by the Air Force pending conclusion of sales legislation. RCA Communications is looking forward to the receipt of any formal solicitation for the disposal of the ACS and appreciates the Air Forces' invitation to present this expression of interest.

Yours very truly,

LUDWIG R. ENGLER.

ALASKA TELEPHONE ASSOCIATION,
Fairbanks, Alaska, April 18, 1966.

ROBERT H. SERVICE,
Colonel, USAF, Deputy Director of Command Control and Communications, Department of the Air Force, Headquarters, U.S. Air Force, Washington, D.C.

DEAR COLONEL SERVICE: This is to indicate that the Alaska Telephone Association, Inc. is very much interested in entering the commercial communications business in Alaska.

The corporation would be willing to negotiate for an out-right purchase or on a combination purchase—lease basis—whatever would seem best for the people of Alaska.

We would be interested in receiving more information on the subject when it becomes available.

Sincerely,

HARRY REIMER, *President.*

WESTERN UNION INTERNATIONAL, INC.,
New York, N.Y., April 20, 1966.

COL. ROBERT H. SERVICE,
Department of the Air Force, Deputy Director of Command Control and Communications, Washington, D.C.

DEAR COLONEL SERVICE: Please refer to my letter to you dated April 12, 1966 in connection with the Alaskan Communications System.

I thought it may be of some added interest to you to know of our intentions for providing communications services in Alaska were we to be the ultimate purchaser. Our Company, while still less than three years old as a separate corporate entity, has been in the communications business for over one hundred years. Since divestment from The Western Union Telegraph Company in 1963, we have expanded our international communications service offerings as well as the foreign markets which we serve. If we were to operate as a communications common carrier in Alaska, it would be our prime intention and a business goal of first priority to offer the residents of Alaska in those areas which we served the full spectrum of communications services which are presently offered in the other states of the United States and internationally from the United States to many of the more technologically advanced countries abroad.

Perhaps this added thought may be of interest to you and I pass it on for your further information and use as you may find it to be helpful.

Sincerely,

J. G. MURRAY,
Vice President, Finance.

GENERAL TELEPHONE & ELECTRONICS CORP.,
New York, N.Y., April 21, 1966.

ROBERT H. SERVICE,
Colonel, USAF, Deputy Director of Command and Control, Department of the Air Force, Headquarters USAF, Washington, DC.

DEAR SIR: This is in response to your request for an indication of our interest in entering the commercial long lines communications business in Alaska. A General Telephone & Electronics Corporation subsidiary, General Telephone Company of Alaska, has been providing communications services in Alaska since 1959. Through the experience gained by that subsidiary in serving the communities of Nome, Seward, Haines, Wrangell, Petersburg and Annette Island and the experience gained by other General System telephone operating companies in providing both local and long distance telephone service in 32 other states, the General System is well qualified to provide commercial long distance service in Alaska.

The General System is interested in providing such service, and would offer all services now furnished by the Alaska Communication System and would introduce, subject to approval by regulatory commissions having jurisdiction, such new services as appear to be in the public interest.

The General System would provide these services by purchasing the property of the Alaska Communications System. In this connection, it is recognized that certain portions of the White Alice Communication System are utilized in the provision of commercial long lines service. Therefore, we would propose purchase of a portion of the White Alice Communication System as well as the negotiation of a protected lease for the use of certain channels in the remainder of the White Alice Communication System and such other Government systems as may be retained by agencies other than the Air Force.

We will be pleased to meet with you at any time to discuss this matter further.

Very truly yours,

GEORGE H. GAGE,
Vice President, Telephone Operations Staff.

ITT WORLD COMMUNICATIONS, INC.,
New York, N.Y., April 22, 1966.

Col. ROBERT H. SERVICE,
Deputy Director of Command Control and Communications, Department of the Air Force, Headquarters U.S. Air Force, Washington, D.C.

DEAR COLONEL SERVICE: The International Telephone and Telegraph Corporation (ITT) is interested in negotiating the purchase and operation of the Alaska Communications System (ACS). We have examined the information sent to us with your letter of January 14, 1966. We agree with you that commercial operation could be financially attractive, provided, of course, the purchase price is within limits assumed in our analysis.

In this connection, we have assumed depreciation rates. If these turn out to be reasonably accurate, we feel that the degree of economic viability indicated would seem to support retention of present personnel to a significant degree, as well as in large measure maintenance of current commercial rates.

If Congress approves the sale of the ACS, ITT envisions that we would conduct an extensive analysis, including on-site inspection of the facilities, and, from this analysis, structure a bid for all or part of the ACS. In the event that ITT chooses to purchase only part of the ACS, a companion lease plan will be submitted which will encompass additional facilities required for ITT to provide complete communication services to the community.

If there is any further support we could give you, please do not hesitate to contact me, or Mr. Joseph J. Gancie in our Washington Office.

Sincerely yours,

J. R. McNITT.

STATEMENT OF MAJ. GEN. GORDON T. GOULD, JR., DIRECTOR OF COMMAND CONTROL AND COMMUNICATIONS, DEPUTY CHIEF OF STAFF, PROGRAMS AND RESOURCES HEADQUARTERS, UNITED STATES AIR FORCE

Mr. Chairman and members of the committee, I am Maj. Gen. Gordon T. Gould, Jr., Director of Command Control and Communications, Department of the Air Force.

My statement discusses the effect on military operations in Alaska if the Alaska Communication System or other portions of the Alaska long-lines communication complex are sold to private industry.

Because of the military importance associated with the sale of the ACS and possibly other long-lines facilities in the State of Alaska, the Commander-in-Chief, Alaskan Command, Lt. General R. G. Reeves, was asked to state his views on this important legislation. Gen. Reeves, in a letter to the Chief of Staff of the Air Force, has stated his support of the proposed legislation. With respect to the military aspects of the proposed legislation he has stipulated the requirement for equal or better service without increase in costs. I have attached a copy of his letter to my statement.

The White Alice, BMEWS, and Aleutian Stretchout systems constitute the framework and backbone of the military and other government long-lines networks in Alaska. The Air Force, Army, Navy, FAA, and other government agencies are all dependent on and served by these systems which were installed primarily to meet air defense early, warning, ballistic missile early warning, and other air defense requirements.

The Defense Department has a direct distance dial (DDD) telephone network in Alaska that derives all of its circuitry from the White Alice, BMEWS, and Aleutian Stretchout systems. This military DOD network is completely separated from the ACS and serves all Department of Defense installations in Alaska. It carries most of the military telephone traffic in that state. For instance, calls being placed over the Defense Department DDD network from Elmendorf Air Force Base at Anchorage destined for Shemya are routed over the government-owned BMEWS, White Alice, and Aleutian Stretchout systems. Note that I did not include any ACS-owned long-lines facilities. For the most part, the location and routing of the government-owned long-lines facilities (White Alice, BMEWS, and Aleutian Stretchout systems) are such that commercial attractiveness will be lacking for the foreseeable future. A sale arrangement should not affect significantly the future operation of these systems.

To further amplify the operating distinction that exists between the military systems and the ACS, I would like to point out that the ACS no longer plays a prominent role in military or other government communications in Alaska. This fact is best illustrated by its statistics for fiscal year 1965, wherein total telephone and telegraph operations amounted to \$15 million; of this amount government business amounted to \$1 million of which \$600,000 is attributed to the Defense Department.

The acquisition cost of the entire Alaska communications complex including the ACS is approximately \$277 million. About \$36 million of this amount represents the acquisition cost of the ACS. It is readily apparent that the ACS, which is the commercially oriented portion of the entire Alaskan communications complex, represents about thirteen per cent of the total Defense Department investment in communications in the State of Alaska.

The ACS-owned long-lines system consists of the open wire pole lines from the Alaska-Canada border to Fairbanks, to Anchorage and to Valdez. In order to serve the needs of all of the general public in Alaska, ACS derives circuits from all of the government-owned communications systems I have mentioned. The number of circuits ACS derives from these non-ACS systems represents about eighteen per cent of the total capacity of the systems.

Although, as I have mentioned, the ACS is a separate operating entity from the bulk of the government utilized system, there are a few stations in Alaska where the telephone circuits and facilities derived from the White Alice and BMEWS systems for military operations and those for commercial telephone operations are routed through and collocated in the same building and share common technical controls. An example of this situation exists in the Anchorage telephone toll center.

In these instances the solution for military purposes will be tailored to meet the specific situation. In the Anchorage case just mentioned, some of the military oriented facilities will be relocated to Elmendorf Air Force Base. In some instances where a joint operation can be accommodated, this will be con-

sidered. In still other instances where only circuits of lesser importance are involved, we would consider contract operations by the commercial carrier. Since the long-lines facilities were installed primarily to meet military and other government requirements, the fulfillment of these requirements will remain paramount in our disposal actions. Should a divergence of interest develop over military command and control requirements versus commercial needs, because of the importance of our national defense, the military consideration must and will prevail until such time as adequate facilities can be provided by private industry.

I would now like to turn to some of the considerations that generally apply in the use of commercial communications for defense purposes.

Government ownership of the communications long-lines complex in Alaska is completely opposite to the situation that exists here in the contiguous 48 states, where all long-lines communications facilities are owned by private enterprise. In the 48 states the Defense Department and other government agencies are almost totally dependent on these commercial facilities for circuits required to conduct defense and other national affairs at every level of government. Had commercial communications been available in Alaska, the long-lines facilities required for military and other governmental agencies would undoubtedly have been obtained from such a source, as is the normal practice in the contiguous 48 states.

Over the years a very close working relationship has been established between the commercial communications carriers and the military. The specific and unique requirements for security, flexibility, redundancy, and system responsiveness during emergencies, as well as during normal operations, characterize the viable commercial communication services rendered to the Department of Defense. The communications services obtained by the Defense Department from the commercial carriers in the contiguous 48 states have proven to be as effective and reliable as those services available from the government-owned system in Alaska. For example, the effectiveness and reliability of communications circuits leased from commercial carriers by the Strategic Air Command and the North American Air Defense Command for command and control of strategic and defense forces varies between 99.0 and 99.9%. The government-owned long-lines systems in Alaska have an effectiveness and reliability almost identical to that provided by the commercial carriers.

In concert with the language of the proposed bill, the Defense Department will insure the selection of responsible carriers to enter into the commercial communications business in Alaska. Under this arrangement, when the Defense Department or other government agencies procure communications services from the commercial operator in that state, the same reliability and responsiveness available in the other states would be expected and demanded. As has been previously indicated, any major shifts in the handling of defense requirements will tend to be more evolutionary than revolutionary.

I would now like to briefly discuss the subject of interconnecting government-owned facilities with those that are privately owned. As a matter of policy such interconnection is not new. The White Alice and BMEWS systems were designed and installed to be compatible and interconnect with Canadian and U.S. commercial carrier systems. The equipment used throughout these systems is of commercial design and manufacture and is typical of that in use throughout private industry.

The essential fact is that the Defense Department is now dependent on Canadian and U.S. commercial long-lines carriers for command and control communications circuits to and from the State of Alaska as well as within the other states. Therefore, the sale of a portion of the Alaska communication complex to U.S. carriers would be an extension of an existing situation that has proven highly reliable and satisfactory for many years.

With the advent of private enterprise in the long-lines business, it is anticipated that future expansion would be more closely aligned with commercial needs. In the past, the existing system was established and located primarily in response to military needs.

The future growth of the commercial system will provide a greater capability for alternate routing of services and thus increase the survivability and reliability aspect of communication services in Alaska. The evolutionary reconfiguration of communication routes for commercial purposes should also develop communication nodal points that avoid military locations and again will be advantageous to defense communications.

In view of the history of highly reliable and effective intermix and interconnection of government-owned and commercial-owned communications facilities, an extension of this operational environment within Alaska is well within the capabilities of the commercial carriers and the Defense Department and can be accomplished to the mutual benefit of all concerned.

It is anticipated that those portions of the systems not sold would continue to be operated and maintained essentially as they are today. However, if changes could be made to increase efficiency or effectiveness, these would be made. Both the White Alice System and the BMEWS Rearward Communications Routes within Alaska have been contractor operated and maintained since installation.

The reliability and performance record of the contractors has been excellent. There have been no interruptions of service since installation of the systems.

The final item I will discuss is the military personnel resource impact. The sale of the Alaska Communication System, the commercially oriented long-lines carrier of Alaska, would release some two hundred military personnel who are directly associated with this commercial operation. These personnel could then be reassigned to essential jobs that are militarily oriented. Most of these two hundred airmen are skilled communication technicians and are in short supply. These skilled technicians require considerable formal technical schooling at heavy expense. The return of these personnel to the performance of tasks that are in direct support of our military mission, will be of significant benefit to the Defense Department.

Since the State of Alaska is not contiguous to the other states, military duty in that state is considered to be an overseas assignment. A rotational capability is required in the zone of the interior to fill overseas assignments. Demands for these communications skills in overseas areas has increased in recent times and has resulted in critical imbalance in that these personnel must be returned overseas after a short period of duty in the Z.I. The sales legislation will have a dual advantage of reducing not only these overseas manpower requirements, but in reducing the number of ZI billets required to maintain a rotational base for overseas replacements.

As a final point, the operation of the ACS involves executive effort on the part of many in the Department of Defense whose duties are not primarily oriented to this function. These efforts, which in aggregate are substantial, will also be released to more pressing defense business.

This completes my statement, Mr. Chairman, I wish to thank the Committee for this opportunity to appear and present this statement.

HEADQUARTERS, ALASKAN COMMAND,
OFFICE OF THE COMMANDER IN CHIEF,
Seattle, April 27, 1966.

Subject: Sale of the Alaska Communications System (ACS).

To: General John P. McConnell, Chief of Staff, United States Air Force, Washington, D.C.

1. Yesterday I met with Major General Richard P. Klocko, Commander, AFCS; Major General Gordon T. Gould, AFOCC; and Mr. John W. Perry, Deputy Assistant Secretary of the Air Force for Telecommunications & Transportation, on the occasion of their visit to Alaska. It was indicated that it would be well for me as CINCAL to make my views known to you for possible use during the forthcoming Congressional hearings on proposed legislation which would permit the sale of the ACS.

2. I am in favor of the sale of the ACS to a company with the demonstrated experience and reliability. Such sale should be predicated on achieving reduced overall costs to the Government and improving commercial services provided to both the civilian populace and Government agencies.

3. I believe that private enterprise in Alaska should be given the same opportunity with respect to commercial communications as in any other state. Certainly, Alaska is in need of additional private capital and a broadened tax base. I am sure that the gradually expanding population, coupled with new oil and mineral discoveries, will result in continued pressure for service and rates equal to those obtained in the continental United States. Further, the Governor of Alaska, the Alaskan Congressional delegation, and the private and public utility telephone companies are generally in agreement with that position. They have asked that telecommunications offered the public be expanded and

modernized, that rates be reduced, and that tolls be changed to a more favorable division with local communications companies.

4. The sale of the ACS will, undoubtedly, be accompanied by problems, such as the need to reconfigure certain facilities and lease back certain of our command and control circuitry. It is important that negotiations with the buyer insure equal or better service without an increase in our present costs. With proper solution of these problems, the mission of this command will not be affected by the sale of the ACS.

R. J. REEVES,
Lieutenant General, USAF,
Commander in Chief.

Senator STENNIS. All right, Senator, do you have any questions particularly to these gentlemen?

Senator BARTLETT. I would—

Senator STENNIS. Then I will call on Mr. Kendall of the committee.

Senator BARTLETT. I have only one question.

Senator STENNIS. All right.

Senator BARTLETT. Isn't it true, either Mr. Perry or General Gould, that the statement made in the film as to the lack of modern equipment is due to the fact that efforts have been made to secure appropriations for modernization over a period of years but these have failed, and they failed in part because the Department of Defense, when the Army had control of ACS, and later the Air Force, had hoped that with each Congress the sale would be consummated.

Mr. PERRY. That is correct, Senator Bartlett. In addition the proposals to appropriate funds for the purpose of modernizing and expanding facilities for commercial communications in Alaska have, of course, had to compete in the establishment of the Department of Defense budget with proposals to expend funds for military purposes, and finally, the proposals for modernization and expansion involving expenditure of appropriated funds have been evaluated in the past in the light of a situation where the revenues to the U.S. Government were not equal to the expenditures already being incurred. All of these factors, I believe, influenced the slow rate of modernization and expansion in Alaska of Government-owned communications.

Senator BARTLETT. One more question.

Senator STENNIS. Yes, sir, Senator.

Senator BARTLETT. Isn't it true also that for a variety of reasons, the person in Alaska, wherever he may live, who makes a call to one of the other States, pays on a mileage basis a rate astronomically higher than he would between two of the contiguous States?

Mr. PERRY. The rates even on a mileage basis are higher from Alaska than they would be between two points in the 48 contiguous States. The mileage, of course, is considerably greater, so that the rates would be appreciably higher even if the rate per mile were the same.

Senator BARTLETT. I would like to suggest, if I may, Mr. Chairman, that at some point in the record we just lift out of any telephone book the long-distance toll charges from Alaska, which are enough to make your hair stand on end. I am not blaming the Air Force or the Department of Defense for this, for there are a variety of reasons why this is so. One of the objectives sought by Alaskans in turning the system over to a private carrier is the hope that these rates may be reduced.

Senator STENNIS. That is the next question I was going to ask. What assurance can we have and give the general public—business and other civilian people generally—that their rates will not be increased by the passage of this bill?

Mr. PERRY. Mr. Chairman, we would propose in the course of sale of the ACS to require the offerors to propose specific rates to be charged at the time they initiate service. We would contemplate putting those rates into effect just before transferring the ACS to that operator and under the terms of the bill as proposed those rates would have to remain in effect for the first year, which we would hope would give the State of Alaska and the Federal Communications Commission ample time to prepare regulatory procedures and to apply regulatory procedures to protect the public interest thereafter.

Senator STENNIS. Well, do you expect to get a better rate for the civilians than they have now?

Mr. PERRY. Mr. Chairman, that decision will rest with the seven companies but the mere fact that there are seven expressing an interest would lead me to expect that we will be offered better rates for the public than we are able to offer today.

Senator STENNIS. Do you have any other reason to believe that, other than an assumption by you?

Mr. PERRY. Yes, Mr. Chairman. The growth of business, commercial long-lines business in Alaska, has reached the point where the revenues are approximately equal to the cost of operation, and it is growing rapidly year by year. From a straight business point of view, I believe that this indicates clearly that a commercial operator will be able to offer reduced rates for the service which he will be beginning, and do so profitably. The reduction of rates, of course, would have the effect of attracting still more business, causing a greater use of the facilities, and this may well be a continuing effect which will produce substantial reduction in rates in the very near future.

Senator STENNIS. Is there anything in the bill that will protect the public and the Government along that line; in other words, is there any formula in the bill which says you shall not sell or dispose of this property unless there is a calculation or estimate that leads them to believe certain things? Is there anything in the bill that provides for that saving clause?

Mr. PERRY. The bill itself, Mr. Chairman, requires first that the Government receive adequate consideration for anything sold. We are responsible or would be responsible both to the President and to the Congress for the way in which that provision is carried out.

Senator STENNIS. Who is going to certify that they believe it is adequate? Is the power vested in the Department of Defense?

Mr. PERRY. This power would be vested in the Secretary of Defense or his designee subject to approval by the President prior to the transfer.

Senator STENNIS. You wouldn't object to a provision in the bill that the transaction shall not be consummated unless the Secretary of Defense certifies that it is his belief that certain things would be brought about, including the idea of protection in rates and so forth. You wouldn't object to something like that in the bill?

Mr. PERRY. No, Mr. Chairman.

Senator STENNIS. If we just turn these matters over to different departments of Government—and I am not referring to any department

or to any individual—when we come back that party may be gone and somebody else may be in. Things happen that way all the time. Congress never knows, you know, just where they are about those matters. I think we ought to write in some safeguards like that. I am glad you don't object to such as that in the bill.

Mr. PERRY. Mr. Chairman, the bill presently provides that the Secretary of Defense will act with the advice and assistance of other agencies of the Government. I would regret to see any provision that would put the Secretary of Defense in a position of entering into the area more properly handled by the Federal Communications Commission.

Senator STENNIS. Well, we have passed bills all along requiring the President of the United States to certify that in his opinion certain best interests would be served before he uses his authority. We will work out something along that line.

Now, General, we have put your statement in the record. Do you have any other points you want to make about this entire matter?

General GOULD. Just one thing.

Senator STENNIS. While you are looking at your notes I will just call on Mr. Kendall, who is chief counsel for the committee.

Mr. Kendall, do you have any questions for Mr. Perry?

Mr. KENDALL. Yes, sir.

Mr. Perry, in view of the very broad authority that is proposed by the bill, I think it is really important that we get in the record just what property the Air Force proposes to dispose of if the bill is enacted because, as I am sure you will agree, the language of the bill itself is sweeping and broad with no limitations whatsoever. So would either you or General Gould, address yourself to that question? What are the plans for the White Alice system, for example, for the Aleutian stretchout and the BMEWS system?

Mr. PERRY. Mr. Kendall. I would like to start an answer to that by pointing out that the bill authorizing transfer defines the term transfer to include sale, exchanges, lease, easement, or permit, and in talking of our action under the bill we are contemplating not merely a sale of facilities but a sale of some facilities accompanied by these lesser forms of transfer to the extent necessary to allow the purchaser of the commercial business to provide service throughout the State. With regard to the White Alice system, for example, in general, we would contemplate that there would be no sale of White Alice facilities at all. But we would contemplate that the purchaser of the ACS would be permitted to transmit messages over White Alice facilities to the extent that the Government had extra capacity which was at the time not being used, and subject to the payment of a full, fair, and reasonable compensation for the use of those facilities.

Mr. KENDALL. It is difficult on this record to be certain that the Air Force is not asking for more authority than it actually proposes to exercise or actually needs. That is why I think that, at best you can, and I realize the uncertainties, the record we make today ought to reflect what the plans of the Air Force are with reference to disposition of this system. I don't think anyone can take the bill or the presentations in support of it and come to a conclusion as to exactly what will happen as far as disposition is concerned if the bill is passed. That is my problem.

Mr. PERRY. Well, in general, Mr. Kendall, it is our contemplation that the facilities which would be sold, would be those facilities which

are used predominantly for commercial business and which handle little or no military communications. Again, in general, it is our contemplation that the Government will retain ownership of those facilities which are used to a substantial degree for the transmission of military long-lines communications.

By the same token we expect to retain the communications facilities that are used on our military bases for local communications, and the Federal Aviation Agency expects to retain its navigational aids and local communications facilities. The FAA is thinking of transferring—and there until we get precise offers from operators we can't tell ourselves whether a sale would be contemplated or only a lease or lesser transfer—but the FAA, at most, is contemplating transfer of its long-lines facilities.

I have said "in general," talking about this transfer, Mr. Kendall, because the ACS operation does involve the use to some limited degree of facilities throughout the State, and the ultimate decision on which facilities should be sold will depend both on the proposals which we receive from potential commercial operators as to which facilities they think they should purchase in order to run an efficient system and on the—

Mr. KENDALL. Excuse me. Do I understand correctly that ACS constitutes about 10 percent of the total system?

Mr. PERRY. Ten to fifteen percent, Mr. Kendall, yes.

It is possible that there may be some small elements of facilities not now in the ACS which clearly should be operated and maintained by the same people who are operating and maintaining the ACS facility, so that a sale of that particular element would be appropriate. This under the terms of the bill, however, could only be accomplished if the Secretary of Defense or his designee determine that the United States does not need to retain the property involved in the transfer for national defense purposes.

That provision in section 202(1) is, I believe, the keystone to any proposed transfer under the authority of this bill. It is that provision which we would rely on to protect the national defense interests and assure that no facility was transferred, whether by sale, lease or any other form of transfer, in a way inconsistent with the requirements of the national defense. It is that provision, Mr. Kendall, which—

Senator STENNIS. Let me interpose there. I think you have covered it to a degree, and that is a very valuable provision in the bill, and we certainly won't disturb it, but I think you can help us a great deal in getting at this thing by listing the items you may propose to sell. That won't strangle you later but it will give us an idea of what you had in mind.

Mr. PERRY. Well—

Senator STENNIS. I am asking you to do that. If you can't do it now, then do it later. I don't believe the bill will move very fast and very far until we know.

Mr. PERRY. In general—

Senator STENNIS. Give us some range of what you may propose to sell. I know I wouldn't favor a bill if I didn't have some idea of what we were going to do.

Mr. PERRY. I will be happy, Mr. Chairman, to provide for the record a full detailed listing of the facilities of the ACS.

Senator STENNIS. Yes.

Mr. PERRY. In general they involve—

Senator STENNIS. Wait just a minute. That is not the answer as I understand it. My question is, will you file a list of the items that you may propose to sell under this bill?

Mr. PERRY. That is correct, Mr. Chairman.

Senator STENNIS. Then we will know what we are doing when we pass the bill, if we pass it. I don't expect you to have that ready today but you can supply it, can you not?

Mr. PERRY. Yes, I can, sir.

Senator STENNIS. Please do so.

Mr. PERRY. I will.

(The following information was furnished for the record:)

Under the proposed bill it is envisioned that the facilities we may dispose of fall into three categories. Under category I is the ACS which we believe is immediately saleable. The ACS items are:

CATEGORY I

1. ACS Anchorage Telephone Toll Center.
2. ACS Fairbanks Telephone Toll Center.
3. ACS Juneau Telephone Toll Center.
4. ACS Ketchikan Telephone Toll Center.
5. ACS Anchorage Telegraph Relay Center.
6. ACS Juneau Telegraph Relay Center.
7. All ACS Telegraph Terminals serving the various cities and communities throughout Alaska.
8. ACS Bush and Marine High Frequency Radio Network consisting of 14 stations located at Anchorage, Bethel, Cold Bay, Cordova, Fairbanks, Juneau, Ketchikan, King Salmon, Kodiak, Kotzebue, Nome, Petersburg, Sitka, Unalaska.
9. ACS Teletypewriter equipment used to provide leased private line teletype service to general public.
10. ACS Ketchikan-Skagway Submarine Cable.
11. ACS Cable Repair Barge Basil O'Lenoir.
12. ACS open wire pole lines installed as follows:
 - a. Yukon Territory-Alaska border to Fairbanks.
 - b. Tok Junction to Anchorage.
 - c. Glenallen to Valdez.
13. ACS-owned radio links which connect to the White Alice and BMEWS system.
14. ACS-owned real property consisting of communications buildings, power buildings and personnel quarters that are excess to government needs.
15. ACS special purpose vehicles.
16. ACS general purpose vehicles that may be excess to government needs.
17. ACS-owned spare parts and stock on hand to maintain the ACS.
18. ACS petroleum storage facilities.
19. ACS-owned tools, test equipment and miscellaneous items.

CATEGORY II

Under category II is that portion of the long-lines systems we do not expect to sell now but which it may be desirable to sell as communications requirements change from predominately government to commercial or as system design capacity is reached. The population beltway of Alaska generally extends from Ketchikan in Southeastern Alaska to Anchorage, to Fairbanks and from Anchorage to Homer on the Kenai peninsula.

The systems we may sell that serve these areas are: (1) the BMEWS Tropic-spheric Scatter System from Smuggler's Cove to Neklason Lake; (2) the Microwave System from Neklason Lake to Fairbanks; (3) the Microwave System from Neklason Lake to the Anchorage Telephone Toll Center; (4) the Microwave System from the Anchorage Toll Center to Kenai/Homer. The conditions under which the sale of these systems may become desirable are: (1) as a Government-owned system capacity is reached it will become necessary to either build a

parallel commercial system or build one new system of such capacity as to provide for government and commercial needs. The building of a parallel system may not be economically feasible or desirable. An example of this possibility exists between Smuggler's Cove and Neklason Lake where this link of the BMEWS System is approaching capacity use. When the Government system capacity is reached it may be economically advantageous for the government to dispose of this link and obtain required communications channels in a commercially installed system of adequate capacity in lieu of continued operation and maintenance of the link; (2) that portion of systems where commercial requirements are increasing and government requirements are decreasing to the extent it will cost less to obtain service from a commercial carrier than it costs for continued O&M of the Government system.

CATEGORY III

The remaining Government-owned long-lines facilities in Alaska are not expected to be sold now or in the foreseeable future. This category consists of that portion of the long-lines systems used predominately for military and other government purposes and generally located in remote areas. These facilities should be adequate to serve both government and the limited commercial needs for the foreseeable future. We would periodically review the facilities in this category in light of the commercial and Government communication needs and the growth and development of the State, and we would, of course, consider for sale any facility in which government requirements may cease to exist at some future time due to the inactivation of a radar site or other government facility served by the White Alice, BMEWS and Stretchout Systems.

Whatever facilities are sold now or in the future, the Department of Defense would expect the Government to receive full fair and reasonable compensation. The present ACS facilities listed in Category I had an initial cost of about \$36 million; however, almost all of these facilities have already been in existence for at least seven years and their current fair value is presumably much below the acquisition cost. Moreover, we will not know until we solicit and receive firm offers from the interested commercial carriers what facilities exactly they will wish to buy. Estimates of potential receipts to the Government have ranged as high as \$30 million.

Senator STENNIS. All right, Mr. Kendall.

Mr. KENDALL. Mr. Perry, in a communication from Assistant Secretary Charles to the Assistant Secretary of Defense for Installations and Logistics on March 9, 1965, the Air Force recommendations included this statement:

On the understanding that no sale will be consummated unless DOD determines that the sale will result in an overall savings to the Government.

Is that still the Air Force position? There is nothing in the bill on that particular point.

Mr. PERRY. That is still the Air Force position, Mr. Kendall.

Mr. KENDALL. I believe you stated, Mr. Perry, there are about 700 civilian employees of the entire system; or was that just ACS?

Mr. PERRY. The ACS has, I believe, 725 civilian employees at this time.

Mr. KENDALL. What would be done to protect these employees in the event of a disposition of ACS?

Mr. PERRY. Mr. Kendall, those employees are entitled to and would receive the maximum amount of protection that we can arrange for them. This would include both an attempt on an informal basis to obtain in advance full consideration of their potential employment by the purchaser of the system, and also, of course, for those employees falling under the civil service system an opportunity to accept another position with the Government. The Department of Defense is particularly concerned with and sympathetic to the personal problems of employees in a situation of this sort, and will make every effort to

protect their interests thoroughly. I would anticipate that most of these employees would be offered positions with the company taking over the commercial operation, as well as having the alternative of remaining with the Government if they chose to do so. You, of course, can't commit a commercial firm to anything on this point.

Mr. KENDALL. General Gould, is the Air Force, as represented by you, perfectly satisfied that the disposition of this property, if authorized, will in no manner adversely affect our national defense or security interests?

General GOULD. That is correct, sir.

Mr. KENDALL. And I believe you have a letter attached to your statement from the Commander of the Alaskan Command in which he concurs in the sale of the commercial portion of the system; is that correct?

General GOULD. That is correct, sir.

Mr. KENDALL. Mr. Perry, you stated in your presentation in support of the bill that there will be expenses in connection with the disposition of this property and you asked for authorization for an appropriation.

Will you give us an idea or a ballpark figure of how much we are talking about? I know you cannot come up with the precise figure. Are we talking in thousands, hundreds of thousands, millions, or what?

Mr. PERRY. I would think very clearly, Mr. Kendall, we are not talking about millions. We are probably talking about something between \$100,000 and \$500,000, as a figure just pulled off the top of my head.

(The following information was furnished for the record:)

Estimate of expenses in connection with the disposition of the ACS:

As the Air Force currently envisages the disposal, the expenses for disposal are estimated not to exceed \$500,000, including such expenses as (i) preparation of a detailed inventory of all property involved, (ii) title search, (iii) surveys, (iv) contracting, with a firm of accountants specializing in regulated utilities, to assist in the preparation of Requests for Proposal and in evaluation of the proposals, and (v) relocation of equipment which the Government will retain but which is located in buildings which will be sold. This estimate would have to be revised if additional elements of the Alaska longlines system were put up for sale at some later date.

Senator STENNIS. Before you leave that, would this require a special appropriation? Don't you have the authority to proceed on matters like this without a special appropriation? Don't you have a general fund or some special fund for general expenses like this?

Mr. PERRY. Senator, to the best of my knowledge, the expenses that we would expect to incur in connection with the sale would not require a special appropriation.

Senator STENNIS. Yes.

Mr. PERRY. I believe it is desirable, however, to have such a provision in the bill to have no misunderstanding between us that we will expend a certain amount of funds.

Senator STENNIS. That may be correct, but I wish you would look into it a little further. We want to know the maximum amount.

Mr. PERRY. Yes, of course.

Senator STENNIS. And put it in there.

All right, is there anything else, Mr. Kendall?

Mr. KENDALL. One further point, Mr. Chairman.

Mr. Perry, this supplements what the chairman asked. But will you furnish for the record the amount appropriated for the Department

of Defense to operate the long-lines communications system for the past 5 years—

Mr. PERRY. I will be happy to.

Mr. KENDALL (continuing). Plus the net revenues to the system for that period.

Senator STENNIS. All right. The answer is "Yes."

Mr. PERRY. Yes.

(The information referred to follows:)

	Appropriation	Paid into Treasury
Fiscal year 1961	\$7,203,261	\$5,696,197
Fiscal year 1962	6,290,547	6,784,518
Fiscal year 1963	6,899,936	7,589,585
Fiscal year 1964	7,619,092	8,951,180
Fiscal year 1965	7,829,157	10,031,415

NOTE.—In addition to materiel and services paid for with the above appropriated funds, the ACS received, without charge, materiel and services funded under other Air Force programs including: (1) Circuits allocated from the BMEWS, White Alice, Aleutian stretchout systems amounting to about 18 percent of the total capacity of these systems. (2) Office and warehouse space in non-ACS owned structures.

The CHAIRMAN. All right. Is there anything else you want to say, Mr. Perry?

Mr. PERRY. No.

Thank you, Mr. Chairman.

Senator STENNIS. All right, General?

General GOULD. Only one point, Mr. Chairman.

Senator STENNIS. All right, sir.

General GOULD. That relates to the normal mode of operation of the Department of Defense in the contiguous 48 States. Here we depend almost exclusively upon commercial enterprise for the Department of Defense circuits and also for interconnection from here with the State of Alaska today; today we are dependent upon both Canadian and American carriers for commercial-type service that is provided to us. So even though most of the Department of Defense service in Alaska will continue to be Government-owned, I wanted to make clear that our normal mode of operation, and it has been a satisfactory mode in the contiguous 48 States, does involve the leasing of a circuit from commercial enterprise.

Senator STENNIS. If the Government is not going to get partly out of business, then I do not see where there is any reason for the sale or the passage of this bill.

Gentlemen, I believe your testimony covers the matter rather well. I commend you for it and I thank you, too. But the things that stick out in my mind now are the question of the rates—the future rates if this sale goes through—and the question of the protection to the public and to the Government, of course, so far as it may use the facilities they are selling with reference to the rates. Another thing is the list of properties that may be offered for sale. That does not commit you to offer them for sale, Mr. Perry, but merely points out those that you may.

I would like to have some information, whether we put it in the record or not, from the sponsors of the bill as to what sale price you expect. I do not think it well for you to put in the record, but

I would like to know. We are bound to have some idea about what you are going to get.

Then I would want an estimate about the position of the Government on outgo and income under the present system and under the one that you expect to realize under this sale. I realize you cannot be exact on that. We all know it will be purely an estimate.

We have other witnesses here and we are going to hear everyone. But, gentlemen, if the points have already been covered, and you do not contradict those points, there is no use in going over them again. I think those of us here who hear these bills have a good deal of patience about them. But there is just no use for you to chew and re-chew the same things over and over. If you disagree with any witness, you ought to speak sharply to the point of disagreement.

Do you have anything further?

Mr. KENDALL. No.

Senator STENNIS. Senator Jackson, we are glad to have you here.

Senator JACKSON. I have no questions, Mr. Chairman.

Senator STENNIS. It might be well for you to stay, gentlemen.

All right. Thank you both very much.

Who is your next witness, Mr. Kendall?

Mr. KENDALL. Commissioner Wadsworth.

Senator STENNIS. Come right around, sir.

Commissioner, we are glad to have you here, as I have already told you. I would have called you as the first witness but wanted to get into the bill first, and then see what you had to say about it. We will be able to understand your testimony better.

Do we have a copy of your statement before us?

STATEMENT OF JAMES J. WADSWORTH, COMMISSIONER, FEDERAL COMMUNICATIONS COMMISSION, ACCOMPANIED BY KELLEY E. GRIFFITH, CHIEF, DOMESTIC RATES DIVISION, COMMON CARRIER, BUREAU, FEDERAL COMMUNICATIONS COMMISSION

Mr. WADSWORTH. I do not have a formal statement, Mr. Chairman. Incidentally, I would like to introduce Mr. Griffith of the Commission.

Senator STENNIS. All right. Mr. Griffith, we are glad to have you here, sir.

Mr. GRIFFITH. Thank you.

Senator STENNIS. Do you want to put your statement in the record or summarize it?

Mr. WADSWORTH. No, sir, I have no written statement.

Senator STENNIS. All right. Proceed as you see fit.

Mr. WADSWORTH. I was invited to appear here today only last Thursday and we did not get a chance over the long weekend to prepare any formal statement.

Senator STENNIS. All right, proceed.

Mr. WADSWORTH. We do have some ideas about this legislation which will have to be very carefully put on paper for the benefit of the Committee; and also the answers to any questions which you might put to us which we are not now in position to give you the answer to. Perhaps there would be some guide in placing in the record a letter approved by the Commission in December of 1964 in answer to a re-

quest from the Bureau of the Budget for comments on the then pending legislation. This will give you an idea as to the Commission's position at that time.

There may or may not be substantive changes in our position today inasmuch as the terms of this bill are very similar to the terms of that bill. This is the letter, the brief letter, written by the Commission to the Bureau of the Budget. It points out some of the difficulties that will attend the passage of such bill from the standpoint of the Commission, the heavy load that will be placed on the Commission at the outset in order to get the integration of this new common carrier into the entire common carrier system; and also the question which is still very strong in our minds about the possible future use of Government frequencies in helping to round out the entire communications system.

So that, with those preliminary remarks, sir, that is all that I had to say today unless I can answer some questions.

Senator STENNIS. All right, Mr. Commissioner. Let us put the letter in the record.

(The document referred to follows:)

FEDERAL COMMUNICATIONS COMMISSION,
Washington, D.C., December 28, 1964.

HON. PHILLIP S. HUGHES,
Assistant Director for Legislative Reference,
Bureau of the Budget,
Executive Office of the President,
Washington, D.C.

DEAR MR. HUGHES: This refers to your request of November 17, 1964, for the Commission's views on a Department of Defense draft bill "to authorize the disposal of the Government-owned long-lines communication facilities in the State of Alaska, and for other purposes" (DOD 89-10).

Apart from one insubstantial word change, the draft bill is identical to H.R. 3614 of the 88th Congress, a bill on which no action was taken. H.R. 3614, in turn, is identical to H.R. 4879 of the 86th Congress. H.R. 4879 was an outgrowth of a 1956 Defense Department proposal and of inter-departmental conferences held thereon. As a result of these conferences, in which Commission representatives participated, H.R. 4879 incorporated certain provisions our staff considered desirable. As you know, the Commission previously commented on H.R. 4879 and related matters.

The Department of Defense proposal is consistent with the general use of private enterprise to provide communication services to the public in the United States. Its enactment would enable the Commission more effectively to regulate charges for interstate communications with Alaska. Currently, we have no authority over that portion of the service furnished by the Department of Defense.

The Commission recognizes that a number of considerations, as to which we are not expert, may be involved in the proposal. Therefore, we are not in a position to make a definitive recommendation on the merits of the proposal, and have limited our comments to observations related to our functions.

The Commission is not given, nor does it wish to assume, any responsibility under this proposal as to the adequacy of the purchase price or plant appraisals of any facilities which might be sold later, in the event such a proposal is enacted into law. In our judgment, these are matters which should be the responsibility of agencies disposing of any facilities to be sold, acting under such standards as Congress may wish to impose.

Apart from this, there are several other observations we would like to make regarding DOD 89-10. The first of these is that this legislation, if enacted, will result in certain additional regulatory responsibility on the Commission's part which, in turn, will increase our work load and require some increase in our personnel and budget. At this stage, it is impossible to assess the precise extent of these increases.

We should also like to direct attention to an important problem which might arise on future transfer of the long-lines facilities covered by this proposal. That problem is the extent to which any future sale also would involve the transfer

to a purchaser of rights to use radio frequencies currently being utilized by government agencies in Alaska in providing communications. It may well be that in order to achieve a transfer which would effectuate the terms of proposed Section 203 (which provides in pertinent part that as a condition of any transfer effected, the purchaser "... shall ... provide without interruption, the communications services involved in the transfer") the military or other departments may be called upon to relinquish radio frequencies presently being used by them. It is our understanding from the inter-departmental conferences held earlier that this matter was intentionally omitted from the draft bill, subject to the understanding that any problems arising along these lines would be handled through IRAC (Interdepartment Radio Advisory Council). In any event, if Departments and establishments selling long-lines facilities do not make available radio frequencies which might be necessary for operation of the system as an integrated whole, the Commission can give no assurances that it could furnish the transferee with suitable substitute frequencies. Moreover, if it were possible to assign such frequencies from existing portions of the radio spectrum available for civilian use, the procedure might require fairly time-consuming administrative procedures and also might involve substantial costs by a purchaser in changing from present frequencies to new ones.

This letter was adopted by the Commission on December 23, 1964.

By direction of the Commission:

E. WILLIAM HENRY, *Chairman.*

Senator STENNIS. You propose to prepare and send to us a statement later?

Mr. WADSWORTH. We will send you a statement brought up to date, based a good deal on that letter; also whatever other things that we can do for the committee, and answer any requests that you might make.

Senator STENNIS. Well, this thing takes on a growing importance, the more I learn about it. We doubtless will be calling on you. Perhaps, after all, the proof is in, we will have to review it and then submit questions to you gentlemen to answer. In that way, you would be helpful to us.

Senator Bartlett, do you have any questions of the Commissioner at this point?

Senator BARTLETT. No, thank you.

Senator STENNIS. Senator Jackson?

Senator JACKSON. No questions.

Senator STENNIS. Mr. Kendall, do you have some questions, or do you want to wait under the circumstances until he updates his letter?

Mr. KENDALL. I have one question he might want to respond to with his other responses.

Senator STENNIS. Proceed.

Mr. KENDALL. I would like to bring this up. Does the Commission think the 1-year period during which the rates would be frozen under this bill is adequate to give the Commission time to do its work in setting up a rate structure and so forth?

Mr. WADSWORTH. I think I would like to pass that question to Mr. Griffith.

Mr. GRIFFITH. Mr. Kendall, the Commission, of course, has not considered this specific question and I think if we might take advantage of the invitation, perhaps we could answer that specific question when we submit our written comments. Frankly, I think it will require a little consideration. Whether 1 year would be adequate under the unique circumstances of this, I would suggest, Mr. Commissioner, that maybe we could answer this question more specifically and more to your satisfaction after we have had an opportunity to consider it.

Senator STENNIS. I guess you consider it doubtful.

Mr. GRIFFITH. I beg your pardon?

Senator STENNIS. You consider it doubtful, I judge, or you would not be taking it under advisement.

Mr. GRIFFITH. The 1-year period for the Commission to consider this seems rather short.

Senator STENNIS. Yes.

Mr. GRIFFITH. And I would not want, since the Commission itself has not had a chance to consider it, I would not want to consider it other than have some doubt about the adequacy of it.

Senator STENNIS. Very well.

Mr. WADSWORTH. I think, in order to do that, it would be somewhat of a crash job and would require extra personnel and extra appropriation and all.

Senator STENNIS. Yes.

Mr. KENDALL. In your submission, would you also include a statement of the extent to which the FCC proposes to participate in the disposal proceedings and evaluation of the bids?

Mr. WADSWORTH. We are not in a position to participate too actively because we have no competence in several of these fields. Maybe we are not supposed to be. However, former Chairman Henry, and now Acting Chairman Hyde have delegated to me, designated me, as the Commissioner to ride herd on this proceeding. After the sale has been consummated or the lease, or whichever it is, we will be working very closely with Alaska Commission, the State of Alaska Commission, in working on tariff rates and things of that sort.

So that we do plan to take an active part in the setting up of the tariffs of the system itself, even though we would not take any active part in the actual sale.

Mr. KENDALL. That is all I have.

Senator STENNIS. I want to be sure I understand this now. You said you did not have the machinery to take part in the actual sale itself?

Mr. WADSWORTH. No, sir; we have no way, for instance, of making—

Senator STENNIS. All right, stop right there.

Mr. WADSWORTH (continuing). Of making assessments and things of that kind, appraisals.

Senator STENNIS. But your answer is, as to the evaluation of it later as to the reasonableness of the rates to protect the public and the Government—

Mr. WADSWORTH. That is right.

Senator STENNIS. And the purchaser, you do have the machinery to do that?

Mr. WADSWORTH. Yes, we do.

Senator STENNIS. Is that correct?

Mr. WADSWORTH. Yes, sir.

Senator STENNIS. Then you do say that this particular item has been delegated to you, is that right?

Mr. WADSWORTH. That is right.

Senator STENNIS. And you do tell the committee further that you will give it your personal attention and you will use this machinery?

Mr. WADSWORTH. We will follow all of the aspects of the transfer of this property and—

Senator STENNIS. All right. I just want to hold down one aspect now. I am talking about rates.

Mr. WADSWORTH. All right, rates.

Senator STENNIS. You do say you will review those rates and you have the machinery to review them, and you will determine whether or not they will protect the public, the Government and the purchaser?

Mr. WADSWORTH. The direct——

Senator STENNIS. You will do that?

Mr. WADSWORTH. The direct responsibility for the rates on an intrastate basis is, of course, with the State of Alaska.

Senator STENNIS. I know that. But we will name the exception later. I want you to promise here what you are going to do.

Mr. WADSWORTH. We are going to cooperate with the State Commission in the setting of all rates, but we have no power to set the intrastate rates.

Senator STENNIS. I know. But I am talking about the intrastate rates. You do have that power?

Mr. WADSWORTH. Yes, sir; we do.

Senator STENNIS. And you will give it your personal attention?

Mr. WADSWORTH. Yes, sir.

Senator STENNIS. All right.

Now, suppose you find, in your opinion, that the rates are too high. What will you do about it?

Mr. WADSWORTH. We go through the regular machinery of hearing on a basis of complaints made, and then we usually talk it over with the company concerned and suggest that they be lowered. We have very rarely given strict orders and things of that sort. We come to a negotiation.

Senator STENNIS. I know; but you will act?

Mr. WADSWORTH. Yes, sir.

Senator STENNIS. And see that they are brought in line with what your judgment is?

Mr. WADSWORTH. Yes, sir.

Senator STENNIS. Otherwise, you would disapprove the sale, is that right?

Mr. WADSWORTH. We have no power over that sale.

Senator STENNIS. All right. You will advise against it?

Mr. WADSWORTH. We can advise the Department of Defense against it, yes.

Senator STENNIS. And you will do it if you think those rates are too high?

Mr. WADSWORTH. If the tariffs that the companies propose are way out of line, we certainly will.

Senator STENNIS. Why put "way out of line" in? We have got to have some protection in here, gentlemen, for the public. We might just as well close shop unless we do that, as I see it.

Mr. WADSWORTH. I will take the "way out" away, "out of line."

Senator STENNIS. All right.

If they are out of line, you will advise against the contract of sale?

Mr. WADSWORTH. Yes, sir.

Senator STENNIS. All right.

There is some language here, Mr. Wadsworth, on page 2, section 201, which is a very long, involved sentence. When you said you did

not have any authority to object when you were talking about general law, I am sure. But this may or may not give you some authority. You can look at that later and it will speak for itself. It is so involved, I do not see how we can stop now, so I will just ask you to do this, if you will examine this bill and see—

Mr. WADSWORTH. Yes, sir.

Senator STENNIS (continuing). If it does give you any special authority to stop the sale or veto it or whether you are just in an advisory capacity.

Mr. GRIFFITH. Mr. Chairman, I think the answer is probably clear already.

Senator STENNIS. All right.

Mr. GRIFFITH. Section 205 of this bill—

Mr. WADSWORTH. 204.

Mr. GRIFFITH. 204, if I may correct that, provides now that transfers under this title do not require the approval of the FCC except to the extent that the approval of the FCC may be necessary under section 202(4), and 202(4) limits the Commission's consideration simply to a determination of whether the transferee could hold a radio station license and that is limited only to the question of alien ownership, so that would be the extent under the way the bill is now written, that the Commission would participate in making any decision of a transfer.

So the way that we have seen this bill is that the transfer will take place without any act or participation by the FCC.

Then after the service is set up under a common carrier operation, the FCC would then take over with its traditional common carrier regulation of the service.

Senator STENNIS. Yes. And as the Commissioner pointed out, it would act in an advisory role to the local commission as to intrastate rates?

Mr. GRIFFITH. Yes. It would require cooperative efforts and procedures between the Alaskan commission and the FCC because these facilities will be used jointly for both intrastate and interstate services.

Senator STENNIS. Well, we have to have some protection here about setting the rates.

Is there anything else, Commissioner, that you wish to point out?

Mr. WADSWORTH. No, sir; not at this time.

Senator STENNIS. And you will update this communication and maybe we will have some more questions, too, after we get into this matter.

Mr. WADSWORTH. You want us to wait for questions before updating the letter or would you like to have that right away?

Senator STENNIS. Mr. Kendall says he would rather have an updating of the letter right away, and that will complete the record.

Mr. WADSWORTH. All right.

Mr. GRIFFITH. Following that we will be happy to answer any specific questions.

Senator STENNIS. Fine. Is there anything else, Mr. Griffith, that you want to say?

Mr. GRIFFITH. No.

Senator STENNIS. All right, gentlemen.

Thank you very much.

Mr. WADSWORTH. Thank you.
(The following letter was furnished for the record:)

FEDERAL COMMUNICATIONS COMMISSION,
Washington, D.C., June 15, 1966.

Hon. JOHN STENNIS,
Chairman, Preparedness Investigating Subcommittee of the Committee on Armed Services, U.S. Senate, Washington, D.C.

DEAR SENATOR STENNIS: This refers to S. 2444 now under consideration by your Committee, which would provide for the disposal of the government-owned long-lines communications facilities in the State of Alaska.

In my appearance before your Committee on May 31, 1966, I submitted for the record a letter from the Commission to the Bureau of the Budget dated December 28, 1964, stating the Commission's views at that time on the legislative proposal now embodied in S. 2444. At the same time I stated that it was my desire to have the full Commission consider S. 2444 so that I might submit to you the current views of the Commission with respect to this proposed legislation.

The Commission has reviewed S. 2444 and the comments it made in its December 28, 1964, letter to the Bureau of the Budget and has concluded that its views, as expressed therein, reflect the Commission's position as of today on S. 2444. To avoid repetition, and in the interest of brevity, I would appreciate your considering the aforementioned letter as a statement of the current views of the Commission on S. 2444.

I also expressed to you the desire of the Commission to assist your Committee in any way which may be helpful and to answer any specific questions within the competence of the Commission that your Committee may have concerning this matter. Accordingly, during my appearance, Committee Counsel specifically requested the Commission's view on the adequacy from the Commission's standpoint of the one-year time period in the provision appearing in Section 203(2) of S. 2444 which reads as follows:

"SEC. 203. The agreements by which a transfer is made under this title shall include a provision that—

* * * * *

"(2) the rates and charges for such services applicable at the time of transfer shall not be changed for a period of one year from the date of such transfer unless approved by a governmental body or commission having jurisdiction."

As we interpret this provision, the transferee-common carrier (or carriers), once certificated by this Commission to engage in interstate or foreign communications common carrier service in Alaska, would be prohibited during the designated one-year period from taking unilateral action to initiate changes in the rates or charges for such service from the level existing at the time of transfer. Thus, during such one-year period, affirmative prior approval by this Commission would be required before there could be any such changes in rates and charges for interstate and foreign communication service, and presumably similar affirmative prior approval by the appropriate state agency would be required with respect to local and intrastate rates and charges. The transferee-carrier (or carriers) would, therefore, have the burden of fully justifying any such proposed changes during the designated one-year period. We believe that insofar as interstate or foreign service is concerned, this particular provision of the bill would create no special problems for the Commission.

Upon the expiration of such one-year period, the transferee-carrier (or carriers) would then be able, under the terms of the present provisions of the Communications Act of 1934, to initiate changes in such interstate or foreign rates or charges by the filing of new or revised tariffs with the Commission upon the required statutory notice of 30 days without the prior approval of the Commission. However, any such changes would be subject to suspension by the Commission for a period of three months pending investigation and hearing and determination by the Commission of the justness and reasonableness of any such changes. Moreover, if S. 2444 is enacted, the provisions of the Communications Act giving the Commission authority upon its own motion or upon complaint to institute formal proceedings looking toward the prescription of changes in rates and charges, if it believes there are questions as to the justness and reasonableness thereof, would then be applicable with respect to interstate or foreign communication service in Alaska.

For the foregoing reasons the Commission has no objection to the aforementioned one-year period.

Please advise if we can be of any further assistance to the Committee in this matter.

By direction of the Commission :

JAMES J. WADSWORTH,
Commissioner.

Senator STENNIS. Who is your next witness?

Mr. KENDALL. Mr. FitzGerald.

He is Chairman of the Federal Field Committee for Development Planning in Alaska.

Senator STENNIS. All right, Mr. FitzGerald, we are delighted to have you here, sir.

You have heard the testimony already. You have a prepared statement and we are glad you do. We have copies of it here.

Mr. Reporter, will you put the full prepared statement in the record at this time?

Mr. FitzGerald, we are going to call on you to summarize the major points of your statement, to make such comments as you see fit on testimony which has already been given, and also give us such additional points as you may wish.

You are Chairman of the Federal Field Committee for Development Planning in Alaska, is that correct?

**STATEMENT OF JOSEPH H. FITZGERALD, CHAIRMAN, FEDERAL
FIELD COMMITTEE FOR DEVELOPMENT PLANNING IN ALASKA**

Mr. FITZGERALD. Yes, sir.

Senator STENNIS. Just what is this Committee? Was it created under congressional act or under State act? Just what is the status of it?

Mr. FITZGERALD. The Committee was established by Executive order of the President on October 2, 1964, Mr. Chairman. It was established upon the recommendation of Senator Anderson, who was head of the Anderson commission which was in charge of the reconstruction effort following the earthquake of March 27, 1960. In his final report he recommended that this Committee be set up and attempt to carry forward long-range development planning for the State. In a sense, we get into the picture because of our involvement in the long-range planning problem in Alaska.

Senator STENNIS. Very well.

Do you live in Alaska?

Mr. FITZGERALD. I live in Alaska. I live in Anchorage.

Senator STENNIS. I have not had a chance to read your statement. I judge that you appear in favor of enactment of the bill?

Mr. FITZGERALD. We are for the enactment.

Senator STENNIS. All right.

Mr. FITZGERALD. And I can summarize this very, very briefly, Mr. Chairman.

Senator STENNIS. Very well. You will not be limited in your time.

Senator JACKSON. Might I ask one question?

What Federal agencies are represented on the Committee?

Mr. FITZGERALD. There are actually 10 agencies. The Committee is composed of the principal agencies operating in Alaska, plus a rep-

representative of the Federal Power Commission. So that we really span the entire operating arms of the Federal Government in Alaska, but I am a Presidential appointee as Chairman of the Commission.

Senator STENNIS. All right. Proceed, Mr. FitzGerald.

Mr. FITZGERALD. Mr. Chairman, my statement, I believe, is quite complete and I would, in the interest of saving time, like to say that the thrust of our testimony is simply this: Circumstances are now such that a sale of the ACS, the commercial long-line telephone and telegraph system in Alaska, is an economic possibility. It would be in the public interest if it can be done in a manner which guarantees or assures—not guarantees, but assures—that we can achieve the matter which you have stressed here, the protection of the public in terms of rates and service.

We have looked very carefully at this matter, and have made quite a detailed study of it. We believe that through proper control of the sale we can get bids which are responsive to the public interest, which will specify in detail the kind of improvements in service that will be made, the schedule on which those improvements in service will be made, that they will set forth proposed rates, and that these rates, rather than being a continuation of the present rates, should be lower particularly, in connection with such new services as direct distance dialing.

We say this because our analysis shows that the number of telephones and the amount of telephone usage in Alaska is artificially restricted by excessively high rates; that a commercial company under the incentive to develop its traffic would immediately not only upgrade the service and reduce its costs through modernization, but it would introduce promotional rates, which would be designed to build the traffic.

Senator STENNIS. What was that, promotional rates?

Mr. FITZGERALD. Yes, promotional rates. And, as a result, we believe that we would end up with a very rapid improvement in service in Alaska, and with lower rate schedules.

We would also propose that in the interim, before the Federal Communications Commission and the Alaskan Public Service Commission actually have time to act, that we control this rate and service problem through our control of the disposal procedure. We should make it a part of the disposal procedure that bidders shall submit specific proposals regarding service and rates, and that we should incorporate them in the contract of sale in such a way that they become binding on the successful bidder.

Senator STENNIS. Well, I see you have gone thoroughly into this. I know you have a valuable statement here. You have added a new element here. I have been talking about rates, and you add the point of service.

Mr. FITZGERALD. Yes.

Senator STENNIS. Rates and service, which is certainly a major item.

You say to us that, in your judgment, if this is properly safeguarded and the sale is made, it will result in a lowering of the rates, and that you believe it will lead to promotional rates that are designed to stimulate business, as I understand it. Is that correct?

Mr. FITZGERALD. Yes.

Senator STENNIS. And that this will all better the service, is that correct?

Mr. FITZGERALD. That is correct, sir.

Senator STENNIS. That is your point. May I ask you how much you have looked into this, and if you would tell us something about your background and experience. You say you live in Alaska. Are you connected with the business community there and know the economy of the State? I am sure you do.

Mr. FITZGERALD. I have lived there, and I know the economy of the State. I have also spent the greater part of my working years in the public utility regulatory field, actually in aviation.

I was Director of the Bureau of Air Operations of the Civil Aeronautics Board for a number of years here in Washington; I have also been in the airline business. I believe I am perfectly conversant with the entire regulatory process, and that I am acquainted with the techniques of analysis of the operations of a company and of the particular type of service rendered by a public utility.

Senator STENNIS. Well, you certainly give the impression that you know what you are talking about.

Senator Bartlett, do you have any questions?

Senator BARTLETT. One, if I may.

Mr. FitzGerald, your job has many facets, of course. Your comparatively new job as head of this committee, a leading one, naturally, is to bring about a coordinated effort for the development of Alaska. What contribution, if any, in your opinion, would the sale of these facilities to a common carrier make to that development effort?

Mr. FITZGERALD. We believe as a matter of general principle, that when something in a developing area reaches a point where it can properly be sold to a private enterprise and operated at a profit, that it is in the interest of the State to put that business in its tax base. One of the great problems in an area which is not highly developed, and Alaska is not, is that it has very little property as a tax base, so that it must seek ways to expand its tax base.

Accordingly, we feel that a sale under these circumstances would be very much in the public interest.

But there is also a broader interest: In order to carry out the development of the State, the basic services—communications, transportation, power—must all be expanded, and this must be done along with other things, or else the development of the State will be hampered. We regard the opportunity to sell the ACS system now and thereby to expand the services offered to the public and to reduce the rates, as a real opportunity to advance the total development of the State. It is for that reason that we have been so much interested in this particular bill.

Senator BARTLETT. Thank you.

Senator STENNIS. Senator Jackson, do you have any questions?

Senator JACKSON. I have no questions of this witness.

Senator STENNIS. Mr. Kendall, do you have any questions?

Mr. KENDALL. I have no questions, Mr. Chairman.

Senator STENNIS. Well, you certainly have been an impressive witness. We appreciate your coming. You heard my statements here about the things that are in my mind as to the bill. If there are any comments you wish to make on those points or any others we would be glad to hear from you, Mr. FitzGerald.

Mr. FITZGERALD. I would like to make one short observation, sir. Senator STENNIS. All right.

Mr. FITZGERALD. ACS is a small part of the total military system in Alaska; at the present time it is roughly in balance as to income and outgo. So that the net total effect on the Government, if it retains the military facilities and sells the commercial facilities, is almost a washout. There is no net increase in cost, no net decrease in cost.

The real effect is in terms of unburdening the military of this responsibility, of also getting what I regard as the plus of commercial operation. We are not dealing here with a matter where the Federal Government is going to turn around and contract at high cost for the use of facilities which it has just disposed of.

This was looked into some time ago and it was found that a sale of the entire facilities in Alaska would result in a bumping up of the Federal Government's costs, and that was one of the many reasons why no effort is being made to talk in terms of a sale of the entire communications system in Alaska.

Senator STENNIS. Very good.

All right. Thank you very much.

(The prepared statement of Mr. FitzGerald follows:)

STATEMENT OF JOSEPH H. FITZGERALD, CHAIRMAN, FEDERAL FIELD COMMITTEE
FOR DEVELOPMENT PLANNING IN ALASKA

Mr. Chairman, members of the committee, it is my privilege to appear before you today to present the views of the Federal Field Committee for Development Planning in Alaska on S. 2444. While the language of the Bill is broad and would authorize the Secretary of Defense to dispose of all Government-owned, long-line communication facilities in the State of Alaska which are no longer required for national defense purposes, we understand that the Department seeks this authority for the more limited purpose of disposing of the *commercial* portion of the communications system which it operates in Alaska. Inasmuch as these facilities also constitute the entire long-lines commercial system in the State, the Bill contains provisions designed to protect the public interest. Thus, any disposal of the system must, under the terms of the proposed Act, be "in the public interest" and "the person to whom the transfer is made (must be) prepared and qualified to provide, without interruption, the communication service involved in the transfer * * *." Sec. 202(1) (2).

The decision of the Department of Defense to seek this authority is based on the conclusion that the provision of commercial telephone and telegraph services is not an essential or desired part of its mission and that the commercial system has now grown to sufficient size to be operated successfully as a private, commercial, public utility system.

The Federal Field Committee, with its direct commitment to the long-range development to the economy of Alaska, is vitally concerned with the future of the communications system. While we share the views of the Department of Defense on the desirability and economic feasibility of the sale, we believe that ours is an additional and separate interest which, subsequent to sale, will become the dominant interest of the people of Alaska and those in the State and Federal governments concerned with the adequate provision of services to the State.

By way of introduction I would like to say a few words about the Federal Field Committee and its role in development planning in Alaska. The Committee was established by the President of the United States under Executive Order No. 11182 dated October 2, 1964. It is composed of representatives of the ten principal agencies and commissions operating in or concerned with economic development in the State. Its function is to join with the government of Alaska in preparing long-range plans for the economic development of the State. This it is doing through a joint State-Federal planning apparatus covering the major fields of economic activity in the State.

Alaska is a very large state (586,000 square miles) and it is rich in such natural resources as timber, fisheries, oil and minerals. With a population of

only 250,000, of which approximately 50,000 are Natives (Eskimos, Aleuts and Indians), the state is only at the beginning stages of its development, and the problems of opening up this vast land are formidable indeed. Although there are communities scattered along the major river systems and the Arctic Coast, the population is largely confined to a coastal rim running from southeastern Alaska to Nome. Back of the coast there is limited development and only one city of over 5,000 population. To translate the great potential of this area into a vigorous, producing part of our national economy is a challenge recognized by the Federal and State governments, which we are beginning to meet in part through a cooperative development planning effort.

Essential to any comprehensive plan of development must be the provision of adequate public utility services at reasonable rates. This is true in all of the service fields—communications, power and transportation. We view S. 2444 as offering an immediate and direct opportunity for us to deal with one of the essential services needed for the development of the State.

In anticipation of these hearings, Dr. Douglas N. Jones, who is Staff Economist for the Federal Field Committee, prepared an analysis of considerations surrounding the proposed disposal of the Alaska Communication System. As this report is both an economic analysis of key elements involved in a disposal of the system and an evaluation of the public interest aspects following sale, it may be of assistance to this Committee in considering S. 2444. With your permission, Mr. Chairman, I would be pleased to offer it at this time for the record.

(The analysis was received and is available in the subcommittee files.)

My testimony today will be directed toward the communications system which should come out of a disposal of facilities by the Federal Government and the procedures and standards which might properly be employed to assure that the resulting privately operated public utility communications system is truly in the public interest and makes its full contribution to the growth and development of the State.

The major areas which we have selected for consideration are:

1. The transfer of a viable system under franchise
2. The appropriate pricing practices applicable to the disposition of equipment used and useful in a public utility system
3. Possible improvements in service through upgrading of equipment and the provision of new services
4. Possibility of lower rates and promotional rate practices to stimulate growth in the system
5. Provision of service to remote or thinly settled areas of the State
6. Methods of handling sale and representation of the public interest
7. Standards to be used in assessing bids

1. *Transfer of a Viable System Under Franchise.*—The Alaska Communication System (ACS), which is the official designation of the commercial portion of the communication system operated by the Department of Defense in Alaska, is the basic public telephone and telegraph long-line system for all of Alaska. It is in part obsolete, having had no major improvement to the system since 1959, and it is inefficient by modern commercial standards without the incorporation of improvements made possible by recent advances in technology. A potential buyer may, therefore, find that much of the system would not be suitable for future commercial use. This is recognized by the Department of Defense and it seeks to allow for this contingency by seeking the broadest legislation authority under S. 2444 to sell, lease, or otherwise dispose of, or retain, facilities presently used in the system. We believe that this broad, unhampered authority is essential in working out the complex problems inherent in a transfer of the commercial system from military to private operation. Otherwise, too much emphasis will be placed on the disposal of property rather than on the creation of the most efficient commercial system possible at this state of the art in Alaska. The public interest will best be served by a disposal of a franchise for the entire telephone and/or telegraph system together with only such property as will be used and useful in the future operations in a revamped and updated commercial communications system.

At the present time the commercial and military communications systems are only partly separated. This is particularly true at toll centers through which all circuits are switched. The Department of Defense believes that full separation of operations can be made promptly and efficiently and in a manner that will fully protect the integrity of the military system. The need for clear separation may cause prospective buyers to seek to acquire the minimum equipment in the toll centers necessary to carry it through an initial period of opera-

tions until new and more modern equipment can be installed. We believe that this approach should be encouraged. Government policy which seeks on the one hand to achieve a clean separation of military and commercial facilities and also seeks the establishment of a commercial system on the most efficient basis thereafter, can best be accomplished by a disposal policy which gives the maximum flexibility to prospective buyers in requesting or rejecting specific items of equipment.

2. *Appropriate Pricing Practices.*—Although the Alaska Communication System is not now operated under public regulation, the accounting and valuation policies and practices followed by the Government in the sale of facilities should be in accordance with accepted principles of public utility regulation. When the Alaska Communication System is sold, the purchaser will operate the system as a public utility company holding appropriate Certificates of Public Convenience and Necessity from Federal and State regulatory bodies. Thus, it must be recognized that the purchasing company as a regulated public utility can only place on its books the cost of items used and useful in its operations and that the value assigned to such items would normally be constructed on the basis of cost less depreciation, using a standard depreciation life as recognized by the appropriate regulatory body. If this value cannot readily be constructed, allowable cost would clearly not exceed fair market value at the time of transfer. It is also accepted public utility regulatory policy to make no allowance, other than a nominal amount, for the value of the franchise held by the operating company.

Recognizing that the Government would not seek to saddle an operating company with costs which would be disallowed by a regulatory body, the Department of Defense has undertaken to place ACS operations under the Uniform System of Accounts prescribed by the Federal Communications Commission. The Federal Field Committee has encouraged the Department in this effort.

If the approach outlined above is finally adopted by the Government, it follows that the competition among bidders in addition to assuring that the Government receives adequate consideration for the property to be transferred, will also be designed to result in a viable public utility system. Thus, emphasis should logically be placed also on service improvements and rate schedules which the bidders propose to offer to the public in the future.

It is anticipated that in order to place all bidders in position to submit proposals along these lines that the governing principles should be firmly settled and announced in the solicitation of bids with adequate time for all parties to make a complete review of the system.

3. *Possible Improvements in Service Through Upgrading of Equipment and the Provision of New Services.*—The Alaska Communication System does not at the present time provide all of the services available to telephone and telegraph customers in other states. While it may not be possible to achieve parity of service in Alaska for many years, due to the small population being served and the great distances involved, it does appear that a number of improvements in service could be made promptly. For example, Alaska does not have direct distance dialing. The installation of equipment to permit direct dialing from the toll centers could be installed for a cost of between one and two million dollars. Even if the local city exchanges could not finance completion of the automated system so the customer can dial directly from his home, direct distance dialing from toll centers would constitute a major improvement of service and should permit a lowering of off-hour, station-to-station rates. Similarly, such commercial services as Telex, date transmission and TV channel capacity are not available in Alaska. These services can be made available in Alaska on a commercially feasible basis and would obviously be matters considered in assessing proposals.

Improvements in service of the kind mentioned above are vital to the economic growth of the State. Even where the service is a matter of convenience to the private citizen, it has its impact on development. One of the major problems in a remote area is to attract and retain people. The ability to call home or to contact friends and relatives may seem a small item but it is a matter of great importance in maintaining the morale of people who are seeking to establish a new life in a remote, and in many ways, different land.

4. *The Possibility of Lower Rates.*—The pricing practices of the Alaska Communication System have their origin in a period when demand for service was small and costs per message were exceedingly high. Since the primary function of the Military is not to develop a commercial system, it has never considered itself free to experiment with services and promotional rates. Our analysis of

the present rate structure, when compared with comparable communities in the United States, clearly demonstrates that the number of telephones per thousands of population and the amount of use are restricted by high rates.

The same comparison can also be used to demonstrate that given more reasonable levels of rates, the volume of usage would increase very substantially. Recent experience in the United States with direct distance dialing and low off-hour rates confirms the elasticity of demand under the influence of rates. We have every reason to believe that the Alaskan market would behave in a similar manner and that a sharp reduction in rates would stimulate a major expansion in the use of the system.

Since significant growth cannot occur until the present high rate structure is broken, it follows that a period of rate experimentation is necessary. We therefore believe that an integral part of bid proposals by prospective purchasers should be specific proposals for new rate schedules with an adequate period for experimentation.

5. *Provision of Service to Remote or Thinly Settled Areas of the State.*—Up to this point we have been dealing with problems which affect the long-line system connecting the larger communities within Alaska and to the other states in the nation. This system constitutes the bulk of the ACS network and will be the major part of any public utility communications operation in Alaska. There are, however, many remote communities in Alaska which receive service into the toll centers over the Military system. The volume of service required by these communities is inadequate to permit the establishment of a separate commercial network. The Department of Defense believes that it can, on some reasonable economic basis, continue to provide such a service without prejudicing its military system. Assuming that the operational aspects of the service can be worked out, there is, however, a substantial economic problem involved in determining the reasonable level of charges which should be imposed.

After considerable discussion with the Air Force, we believe that the Government can obtain adequate reimbursement for the provision of service over its lines to remote areas by establishing a reasonable allocation of costs on a usage basis between defense, defense standby, and commercial carriage. Under such an arrangement no burden would be placed on either the Government or the public in that charges for commercial usage would be predicated only on that portion of circuit costs allocable to such traffic, once defense and defense standby capacities (properly chargeable to Government) were accounted for. This matter is, of course, of real importance to prospective bidders in formulating proposed levels of rates and charges.

We propose that a detailed schedule of proposed circuit charges be prepared and circulated at the time of the invitation for bids so that all bidders will know precisely what the level of revenues and costs will be in assuming responsibility for service to the smaller communities.

6. *Methods of Handling Sale and Representation of the Public Interest.*—S. 2444 places responsibility for the handling of the sale in the Department of Defense, subject to obtaining concurrences from such other Federal agencies as may have an interest. Specific provision is not made in the legislation for representation of the public interest through State and local agencies concerned with the continuing service to the public. This latter point is recognized by the Department of Defense and it has expressed its desire to have State and local representatives advise and assist DOD as it evaluates offers.

From what has been said, it is clear that the disposal process recommended in this case is novel as well as complex. It is, therefore, desirable to clarify in advance to the maximum extent possible how such interested parties as the State and local municipalities operating telephone systems are to be represented. The State of Alaska must, of course, process under its laws any request for issuance of a Certificate of Public Convenience and Necessity to operate intra-state. But we consider it of equal importance for the State to be able to consult with the Department of Defense so that its valued advice and intimate knowledge of local needs and conditions can be fully considered. Local communities operating telephone systems should also be represented individually or by their state-wide association. We believe, however, that local representation is a State matter and that the Governor of Alaska should be invited to name the State and local representatives to advise and assist DOD in the course of evaluating offers.

The Federal Field Committee will, of course, continue its participation in the disposal proceedings to the extent desired by the Department of Defense and the Bureau of the Budget.

7. Our testimony today has stressed the basic importance of the disposal machinery as a creative tool in the establishment of an effective and efficient public utility communications system serving Alaska. The disposal process, in its entirety, will be lengthy and complex. Starting with the Request for Proposal, bidders will be asked to propose an operating system encompassing all of the present commercial operations of ACS. This will involve facilities and equipment which bidders would propose to acquire from ACS, the modifications and additions to be made, and the necessary leases of circuits and arrangements for handling service to outlying communities. In addition, bidders will be asked to specify in detail: (1) the range of services which they will provide and the schedule for its inauguration, and (2) the schedule of rates which will be placed in effect at the time of turnover of the system for existing services and at appropriate later dates for new services.

In separate proceedings, which must be conducted concurrently with the disposal proceedings, the successful bidder must apply to the Alaska Public Service Commission and the Federal Communications Commission for appropriate Certificates of Public Convenience and Necessity.

As the primary focus of the Government in disposing of the commercial telecommunications system for Alaska is to assure the creation of a public utility system adequate to serve the need of the State, which is also the thrust of the proceedings before the State and Federal regulatory bodies in issuing Certificates of Public Convenience and Necessity, we believe that the principles which these regulatory bodies would apply in their proceedings should be taken as the standards used by the Government in evaluating bids. Perhaps, in the interest of clarity and to avoid controversy between the Government and bidders, it would also be appropriate to agree in advance that the principles employed by the Federal Communications Commission would be the standards used for evaluation purposes.

In our testimony we have talked about the public interest and how it is to be served. I would also like to add that the acquisition of the commercial long-lines telecommunications system for Alaska will be a very real asset to the successful bidder. Rapid and significant commercial growth is indicated. The Government is, in no sense, seeking help from the industry. Alaska is a market with real growth potential, and its location, spanning much of the distance between North America and Asia as well as having a polar position central to all continents of the Northern Hemisphere will place the successful bidder in a potentially strategic world position.

This completes my testimony, Mr. Chairman. I wish again to thank the Committee for the opportunity to appear and to testify on this very vital matter to the Government and to the State and people of Alaska.

Senator STENNIS. Call the next witness, please.

Mr. KENDALL. Mr. Robert Sharp.

Senator STENNIS. Excuse me, Mr. Sharp. I had a matter I had to take up with the Senator here.

Mr. SHARP. Thank you, sir.

Senator STENNIS. You are assistant commissioner of administration for the State of Alaska, Mr. Robert E. Sharp, is that correct?

STATEMENT OF ROBERT E. SHARP, ASSISTANT COMMISSIONER OF ADMINISTRATION, STATE OF ALASKA

Mr. SHARP. That is correct, sir.

Senator STENNIS. We are delighted to have you here. I hope you have a written statement with you. By the way, here is a statement from the Governor—is this it? You are speaking for the Governor?

Mr. SHARP. Yes.

Senator STENNIS. Fine. All right, do you wish to put your statement in the record or do you wish to read it? You can put it in the record and summarize it. Then it will all be in the record, as well as your summary.

Mr. SHARP. Mr. Chairman, if it is agreeable with you, I would like to put it in the record. But I would like to touch on several points.

Senator STENNIS. That is what I mean exactly. I think that is the best way to do it.

All right, you proceed.

Mr. SHARP. Two of the things that concern us, of course, are the rates that exist and the lag in improvements that have been the case over the last several years.

For example, on the rates, the day rate in Alaska in zone No. 1, which is 500 to 999 miles, station to station, is \$4.50 for the initial 3 minutes, and person to person it is \$6.50. The day rate, station to station between Seattle and Los Angeles, a distance of about 950 miles is \$1.50 and person to person it is \$2.40. We can recognize the greater distance and plant requirements and the lower volumes of traffic, but the differential is far too great.

We feel that, like Mr. Fitzgerald has commented, with improved facilities and lower rates, the increased traffic volumes would actually result in greater revenues, and improve the financial picture of the commercial portion of the operations. Whether or not sale to private enterprise would result in these lower rates and the improved services, frankly we do not know, because we have never seen an engineering or financial study that would bear out that contention.

There is speculation that it will be. But we really do not know at this stage of the game.

The only evaluation we have seen was done in 1963 by the Middle West Service Co. of Chicago for the U.S. Air Force. This report indicated that it is feasible to offer for sale the total complex, communications complex. However, that recommendation was based on a long-range or 5-year Government contract that the U.S. Government would continue to take services from the new company.

We have not seen a report dealing separately with only the commercial operations for the system.

Senator STENNIS. What is that now? Who is this report from that you are talking about?

Mr. SHARP. It was made by the Middle West Service Co. of Chicago in 1963 for the Air Force.

I think that the point that the company may have made I will bring out just a little bit later, Mr. Chairman.

Senator STENNIS. All right, very good.

Mr. SHARP. As I say, we have not seen a report dealing solely with the commercial aspects of the operation.

In the absence of such a report, we are somewhat disturbed as to what the exact effect the disposal may have on, not only business, and industry, but the residents of the State as well.

Of course, not having seen such a report, we do not know the exact facilities that would be sold; we do not know what the interconnection arrangements would be, and how this commercial portion would then operate with the remaining Government-owned facilities.

If only the commercial facilities are sold, it will be necessary, particularly to serve remote areas of the State, for the private company to lease or rent Government-owned circuits. What these rental rates will be, and whether the needed circuits will be guaranteed to the private operator in the future is a source of concern to us.

Of course, if the circuits were discontinued or their usage discontinued for the private operator, much of the State could not be served. We think this is an unresolved problem that certainly should be resolved before there is a sale because much of the State is served from White Alice and other portions of the system that I understand from this morning's testimony would not be sold.

The bill contains the language that it would authorize the transfer for adequate consideration any or all of the long lines in the State. We suggest that the sales price should become secondary to the qualifications of the purchaser and the ability of the purchaser to improve the services and lower the rates.

We would hope that such congressional intent might be written into this bill rather than to receive the highest dollar, and continue with an inadequate service and high rates.

So we suggest that you might consider amending section 201, spelling out congressional intent as to sales price.

Section 202 of the bill provides that the person to whom the commercial system, or the system that is sold, might be transferred, not be disqualified from holding an FCC radio license. The statutes of the State of Alaska require that any public utility that operates in the State must first have obtained a certificate of convenience and necessity from the Alaska Public Service Commission. We recommend that requirement be written into the bill in section 202, that the operator or purchaser, proposed purchaser, hold such a license or is qualified to hold such a license. We feel this provision would permit the State adequate time to review the proposed purchase, the proposed rates, and to at least preliminarily establish those things necessary to regulate rates after the purchase.

Senator STENNIS. Well, we could not cut off the regulatory functions of the State, I do not think, by passing a bill here. You want it expressly written in here so that you will have the right to review the matter before the sale is consummated, is that right?

Mr. SHARP. To review the application of the proposed purchaser, including his rates, prior to the actual consummation, and it is a matter of timing as much as anything, Mr. Chairman, because we recognize that for the intra-Alaska service the purchaser would have to hold a certificate of convenience and necessity.

But as the FCC representative stated, the 1-year provision is fairly short when you recognize that, at least to my knowledge, the accounting system used by the Government does not conform to that normal for Commission requirements.

Senator STENNIS. Yes.

You do not want to be presented with a finished product. You want to be in on the thing long before it reaches that point?

Mr. SHARP. Initially.

Senator STENNIS. Yes. Prepare your amendment on that. You have it prepared?

Mr. SHARP. I do not, but I would be glad to prepare it and submit it.

Senator STENNIS. All right; prepare your amendment.

I do not know what the committee will do with it but prepare it.

Senator JACKSON. Mr. Chairman, may I ask a question on that?

Would any company or companies have grandfather rights?

Mr. SHARP. Not to my knowledge, Senator Jackson.

Senator JACKSON. We have had this problem up before in the disposal of the telephone system at Hanford. We had the same situation at Los Alamos in New Mexico. I am just wondering if under your regulatory procedures, whether a given company would have a prior right over someone else.

Mr. SHARP. Not to my knowledge, Senator Jackson.

Senator JACKSON. So that is not a problem here?

Mr. SHARP. Not to my knowledge, no, sir.

Senator STENNIS. All right. Go ahead.

Senator JACKSON. One other question on this point.

Senator STENNIS. All right, Senator.

Senator JACKSON. What percentage of the business is commercial at the present time and what percentage is Government?

Mr. SHARP. Of the total system?

Senator JACKSON. Yes. I am talking about in terms of gross revenue.

Mr. SHARP. I could not answer it, Senator Jackson. I do not know how they account for the Government traffic. The only figures I heard quoted this morning is around \$14 million in commercial, gross commercial revenues. What the value of the Government traffic is, Senator, I do not know.

Senator JACKSON. I think it would be useful, Mr. Chairman, to have a breakdown here because the Government has certain interests that it is desirous of protecting. We need a breakdown as to what the Government and non-Government business is, both long lines and intrastate.

Senator STENNIS. Mr. Perry, you heard this request from Senator Jackson.

Mr. PERRY. Yes, sir.

Senator STENNIS. Would you make a note here and supply it for the record.

Mr. PERRY. Yes, I will be glad to do that.

(The information above referred to, follows:)

Five-year breakdown of messages transmitted by ACS

FISCAL YEAR 1961

	Commercial	Government	Total
Intrastate telephone:			
Number of messages.....	732,956	505,213	1,238,169
Dollars.....	\$1,595,041	\$2,017,335	\$3,612,376
Interstate telephone:			
Number of messages.....	410,212	20,178	430,390
Dollars.....	\$5,158,542	\$431,222	\$5,589,764
Intrastate telegraph:			
Number of messages.....	40,964	66,456	107,420
Dollars.....	\$58,169	\$190,207	\$248,377
Interstate telegraph:			
Number of messages.....	315,351	7,585	322,936
Dollars.....	\$739,497	\$27,297	\$766,793
Other services (leased lines, etc.) dollars.....	\$495,797	\$1,397,653	\$1,893,450
Total dollars.....	\$8,047,045	\$4,063,714	\$12,110,760

Five-year breakdown of messages transmitted by ACS—Continued

FISCAL YEAR 1962

	Commercial	Government	Total
Intrastate telephone:			
Number of messages.....	862,915	374,406	1,237,321
Dollars.....	\$2,029,656	\$1,473,831	\$3,503,487
Interstate telephone:			
Number of messages.....	471,426	16,920	488,346
Dollars.....	\$6,359,027	\$337,826	\$6,696,854
Intrastate telegraph:			
Number of messages.....	37,673	79,982	117,655
Dollars.....	\$57,859	\$231,321	\$289,181
Interstate telegraph:			
Number of messages.....	295,554	3,332	298,886
Dollars.....	\$699,998	\$10,438	\$710,437
Other services (leased lines, etc.) dollars.....	\$488,223	\$163,451	\$651,674
Total dollars.....	\$9,634,764	\$2,216,868	\$11,851,632

FISCAL YEAR 1963

Intrastate telephone:			
Number of messages.....	995,209	18,618	1,179,827
Dollars.....	\$2,213,665	\$641,160	\$2,854,825
Interstate telephone:			
Number of messages.....	532,820	15,345	548,165
Dollars.....	\$7,076,330	\$256,477	\$7,332,806
Intrastate telegraph:			
Number of messages.....	35,736	74,440	110,176
Dollars.....	\$53,868	\$222,478	\$276,347
Interstate telegraph:			
Number of messages.....	290,915	2,912	293,827
Dollars.....	\$688,932	\$8,874	\$697,805
Other services (leased lines, etc.) dollars.....	\$491,172	\$217,349	\$708,521
Total dollars.....	\$10,523,966	\$1,346,337	\$11,870,304

FISCAL YEAR 1964

Intrastate telephone:			
Number of messages.....	1,060,023	149,020	1,209,043
Dollars.....	\$2,509,441	\$522,493	\$3,031,935
Interstate telephone:			
Number of messages.....	635,863	13,160	649,023
Dollars.....	\$8,440,457	\$211,543	\$8,652,000
Intrastate telegraph:			
Number of messages.....	38,648	67,841	106,489
Dollars.....	\$57,888	\$187,216	\$245,105
Interstate telegraph:			
Number of messages.....	311,281	2,243	313,524
Dollars.....	\$732,926	\$7,230	\$740,156
Other services (leased lines, etc.) dollars.....	\$613,503	\$318,235	\$931,738
Total dollars.....	\$12,354,215	\$1,246,718	\$13,600,933

FISCAL YEAR 1965

Intrastate telephone:			
Number of messages.....	1,198,805	107,655	1,306,460
Dollars.....	\$2,912,426	\$339,530	\$3,251,956
Interstate telephone:			
Number of messages.....	707,259	11,597	718,856
Dollars.....	\$9,419,652	\$182,557	\$9,602,209
Intrastate telegraph:			
Number of messages.....	37,538	67,511	105,049
Dollars.....	\$56,693	\$201,639	\$258,332
Interstate telegraph:			
Number of messages.....	299,020	1,303	300,323
Dollars.....	\$701,190	\$2,979	\$704,168
Other services (leased lines, etc.) (dollars).....	\$708,307	\$306,894	\$1,015,201
Total dollars.....	\$13,798,259	\$1,033,599	\$14,831,858

Senator STENNIS. All right, cover the next item.

Mr. SHARP. Mr. Chairman, I am going to summarize very briefly.

Senator STENNIS. You have the point at the bottom of page 4 that we should make a comprehensive engineering and financial study.

Mr. SHARP. Yes. We would like to see an engineering and financial study made to determine just what portion of the system should be sold, and I am talking about getting down into the details, until we know the exact facilities that are to be sold.

I think the purchaser would certainly want to know this as well, and to determine the relative feasibility of whether or not only a portion of the total complex should be sold.

Senator STENNIS. You mean sell all of that which belongs to the Air Force, everything?

Mr. SHARP. It is not uncommon for the Government, I think to use commercial facilities for their longlines communications. It could be that the most feasible method for both the Government and the private operations would be the total complex.

Senator STENNIS. Well, you heard testimony here that the Government had a \$277 million investment in the military part of this complex.

Mr. SHARP. I appreciate that, Mr. Chairman. It would be a sizable facility.

Senator STENNIS. All right.

Mr. SHARP. If the total complex was sold it would resolve a lot of problems as to coordination of the facilities, interconnections, and the rates over the Government facilities if they are otherwise retained, the extensions in the future, which concerns us, as to whether or not there will be circuits available to that retained by the Government if only a portion is sold.

We think this type of study is going to be necessary in the long haul for several reasons, to determine whether the proposal to buy is reasonable, and it could integrate into it those things necessary for the regulatory agencies to initially establish the books on this utility, and I am referring both to the FCC and to the State.

I would think it would take the State from 1 up to 1½ years, the expenditure of a quarter of a million dollars to get the books established to regulate this utility, and it would appear to me that this is an opportunity to combine several things, to reach a decision on the sale, to help the State and the FCC and the regulatory actions that would follow a sale.

Senator STENNIS. Does that mean you would have this survey, and financial and engineering study, and everything else put into one package?

Mr. SHARP. And available to everyone concerned after the consummation, if a sale was feasible.

Senator STENNIS. After the consummation?

Mr. SHARP. Would be available after the consummation of the sale.

Senator STENNIS. It would continue to be available, and you would want to use it to decide whether or not you would want to make the sale, is that correct?

Mr. SHARP. We have it available both before and after the sale; yes, sir.

Senator STENNIS. All right.

Mr. SHARP. I believe, Mr. Chairman, that covers the major points we wanted to make this morning. We appreciate the opportunity to be heard.

(The prepared statement of Governor Egan follows:)

STATEMENT OF HONORABLE WILLIAM A. EGAN, GOVERNOR OF ALASKA

Mr. Chairman, members of the committee, the opportunity to appear before this committee to present the views of the State of Alaska on S. 2444 is appreciated very much.

This bill would authorize the disposal of the Government-owned long-lines communications facilities in Alaska, and for other purposes. We consider this bill to be highly important to the State of Alaska, its future growth and economic development. Good communications at reasonable rates is particularly important to the success of business and industry in this modern age and particularly to Alaska where distances are great both within its boundaries and between Alaska and other states. Most of our commerce is carried on with businesses in the other states and the use of long-lines has become an important method of communications.

The improvement of the long-lines communications facilities in Alaska has lagged in recent years, and the rates are tremendously high compared with similar services available in the other states. For example, the day rate in Alaska in Zone 1 (500-999 miles), station-to-station, is \$4.50 for the initial three minutes, and \$6.50, person-to-person, for the initial three minutes. The day rate, station-to-station, between Seattle and Los Angeles, a distance of some 950 miles, is \$1.50, and person-to-person it is \$2.40. We recognize that the relatively greater plant requirements and smaller traffic volumes require a higher rate but we feel that the present differential is far too great. We feel that with improved facilities and lower rates increased traffic volumes would result in greater revenues and an improved financial picture for the commercial operations. We believe that whether or not the sale of the long-lines communications facilities used for commercial purposes would bring about the desired objective of improved services and lower rates is unknown at this time. The Financial Evaluation of the Alaska Communications System completed in 1963 by the Middle West Service Company of Chicago for the United States Air Force raises some serious questions as to the feasibility of private ownership and operation of the facilities, used for commercial purposes, without the sale of all Government-owned long-lines in Alaska. In Section X of this report, this firm stated "xxx we recommend as feasible the offer for sale of the Total Communication Complex. However, such recommendation is made only on the basis that the government will contract for the continuation of its full services for a minimum period of five years." Although this report is several years old and the data upon which it was based is probably out-dated, it is the only report on the subject made available to the State of Alaska.

It is our understanding that the Department of Defense is currently planning to dispose of only that portion of the Government-owned long-lines used for commercial traffic. We are not aware of any comprehensive engineering and financial study having been made *dealing only with those facilities used for commercial services*. The absence of such a study and report is disturbing to us because we do not know what effect the disposal of the commercial facilities would have on business, industry and the residents of Alaska who depend on this service. We are not aware of the exact facilities that are used for commercial service and how these facilities would be interconnected and operated with the remaining communications facilities. In this regard, if only the commercial facilities were sold, service to all of Alaska, particularly the more remote areas, would require lease or rental of government-owned circuits. What rental rates would be charged and whether the needed circuits would be made available on a continuing basis is unknown to us. If the rental of such circuits was not guaranteed the discontinuance of their use in the future would jeopardize long-lines communication service to many areas of Alaska. Another problem unresolved is whether the government, after disposal of the commercial facilities, would extend its facilities in those areas where its facilities are located to meet new commercial service requirements. This is a most important consideration in many areas of the State where commercial and industrial development is now occurring and is likely to occur in the near future. These matters should be resolved before proposals are solicited for the disposal of the long-lines facilities.

This bill would authorize the "transfer for adequate consideration" any or all of long-lines communications facilities in Alaska. The amount of such consideration is vital in our opinion because of its effect on rates, particularly in view of the State's objective of lowering rates and improving services. We would like to see *this section (Sec. 201) modified to spell out Congressional intent that the "sale price" is secondary to the qualifications and the ability of the purchaser to improve services and lower rates.* We believe such modification would be within the mutual objectives of the federal and State governments to develop Alaska.

Section 202 of the bill provides, among other things, that the persons to whom the transfer is made must not be disqualified by the Federal Communications Commission from holding a radio station license under any of the terms of the Communications Act of 1934, as amended. Alaska Statutes prohibit any public utility from operating without first having obtained from the Public Service Commission a certificate of convenience and necessity. We recommend the inclusion in this section (Sec. 202) of a clause requiring the person to whom transfer is made to hold a certificate of convenience and necessity from the Alaska Public Service Commission.

In summary, we recommend that a comprehensive engineering and financial study be made to determine whether all or only the portion of the Government-owned long-lines communications facilities in Alaska, used for commercial traffic, be sold, and to determine the relative feasibility of sale of the total complex versus only the commercial facilities. Conceivably the sale of the total complex might enhance the feasibility of private ownership and operation, and in the long run provide communications services to the Government at lower costs.

It would resolve the problem of coordination of facilities, interconnection and rates and extensions in the more remote areas of the State. In any event, we think that a study of this type is necessary to evaluate proposals for purchase. Therefore, it appears to us that the findings required under Sec. 202 of this bill should be conditional upon there first being made a comprehensive engineering and financial study by a firm qualified in this field. And further, we feel the soliciting of proposals to purchase should not be authorized until such study is made and the Government then determines what facilities are to be sold, the terms and rates for interconnection and the use of Government-owned circuits (in the event only commercial facilities are sold) and the availability and extension of Government-owned facilities in the future to meet commercial service requirements in those areas where government facilities are located.

We sincerely hope consideration will be given to the suggested amendments before this bill is considered for passage.

In conclusion, the need for capital improvements, improve and additional services and lower rates to promote traffic is obvious. We recognize that the disposal of these facilities, if proven feasible, will require an extended period of time. In the interim we hope the federal Government will proceed with needed capital improvements, improved services and a reduction in rates to promote traffic. Such action in our opinion, would enhance the ultimate disposal of the facilities.

Thank you again for hearing our views on this important bill.

Senator STENNIS. Well, now, suppose we turn down all these amendments that you requested—I am not suggesting that we will, but suppose that we turn them down—do you favor the bill if they are defeated?

Mr. SHARP. At this point, Mr. Chairman, we neither favor nor oppose because we are not sure of the exact results yet. We are very hopeful of getting information here today at this hearing. Certainly, the prospects of a private ownership and development, we do not disagree with that principle at all. But the most comprehensive report we have seen, which is now outdated, raised some serious questions on the commercial section alone.

Senator STENNIS. On what?

Mr. SHARP. On the commercial portion alone.

Senator STENNIS. Yes.

Mr. SHARP. And while the feasibility is greater now than it was then, we have not seen a feasibility study on it, and we are certainly not opposed in principle to the sale.

Senator STENNIS. Now, I want to be sure that we understand. You represent and speak for the Governor?

Mr. SHARP. Yes, sir; I am speaking for the Governor.

Senator STENNIS. The Governor is elected by all the people, and represents all the different interests of the economy, as well as every aspect of your State, and you say that, if these amendments are not adopted, you are not taking, and the Governor is not taking, a position for or against the bill?

Mr. SHARP. Well, we suggest these amendments that would improve the bill.

Senator STENNIS. I am not trying to put you on the spot, but we want to know what the Governor's recommendation is as to the bill as presented.

Mr. SHARP. Well, certainly, with the amendments we would have no opposition to the bill, Mr. Chairman.

Senator STENNIS. All right. Without the amendments, now, what is the position of the Governor?

Mr. SHARP. I do not think we would want to oppose the bill as such. We think the amendments would improve it, but I do not think we would oppose the bill as such. We think these amendments would improve it.

Senator STENNIS. This financial study that you suggest, you had not thought in terms of the State having this study made by some competent person, had you?

Mr. SHARP. No, we had not at this point.

Senator STENNIS. You did not suggest that. What is your response to my suggestion that you do it, just to get your response? What about that? You would be representing all the people and all the phases of the economy—the Governor would—and I am just asking for information. What would be your response to having that done?

Mr. SHARP. Well, I think we would be hesitant with our knowledge as to whether or not there was going to be authorization to sell the long-line facilities.

Senator STENNIS. I beg pardon?

Mr. SHARP. We would be hesitant to undertake such a study unless there were something as to the passage of this legislation.

Senator STENNIS. Yes.

Mr. SHARP. Because it is a very sizable expense.

Senator STENNIS. Well, we could pass a law providing that it should not be carried out until you had made that study.

Mr. SHARP. I would say this, Mr. Chairman, I think the State would be willing to participate in that cost if it were broad enough to give it the information needed to establish the books after the sale was consummated, assuming it was feasible.

Senator STENNIS. Yes.

All right. Do you want to prepare an amendment along that line? Unless we have an amendment that reflects your thought, we might have trouble getting to the real issue.

This is a more important and far-reaching bill than I had realized before we had gotten proof on it.

Mr. SHARP. I will be glad to submit a proposed amendment on these items I have covered, Mr. Chairman.

Senator STENNIS. All right. We will call on Mr. Kendall to ask some questions for the committee, and since Senator Symington has

come back, I will call on him then. As a matter of fact, I will call on you now, Senator, if you wish.

Senator SYMINGTON. No.

Mr. KENDALL. Just one question, Mr. Sharp, with respect to your suggested amendment that section 201 be modified to spell out the congressional intent that the sales price be secondary, and so forth. I sympathize with the position of Alaska.

But, let us look at the other side of the coin. How would my chairman, for example, defend such a provision on the Senate floor against the charge of a give away to industry?

Mr. SHARP. Well, I think that when it is understood that the sales price has such a bearing on the eventual rates and that there is a rate problem now, as our thoughts on it, and much of this plant that is used for commercial purposes, particularly, has been in service for a number of years, and so it may be depreciated to the point that it has become obsolete, its value is not as much as we are talking about, as we think we are.

Mr. KENDALL. Why make one secondary or primary to the other? Why shouldn't the interests be balanced? The Federal Government has an interest in this matter and its disposition. The State of Alaska certainly has a very high public interest in it. Don't misunderstand me.

Mr. SHARP. We think the amount of money we are talking about, and the economic effect on the State, we think the mutual interest that both the Federal and the State government would have, would be well worth it to make it secondary.

Mr. KENDALL. That is all I have, Mr. Chairman.

Senator STENNIS. All right.

Senator SYMINGTON. I will call on Senator Bartlett. I have been calling on him first. Senator Bartlett.

Senator BARTLETT. I might suggest, if I might be permitted to do so, Mr. Chairman, that Mr. Perry be asked to submit a statement to the committee in reference to the report of the Middle West Service Co. of Chicago made, as Mr. Sharp said, in 1963 to inform the committee of the pertinence of that report in two respects: One, what was the reaction of the Air Force to the recommendation of the company at that time; and two, has the situation changed substantially since this report was made. I think Mr. Perry ought to be given an opportunity to do that.

Senator STENNIS. I thank you for your suggestion. We will call him back to the stand.

Senator BARTLETT. I would like to ask Mr. Sharp this question. Governor Egan said:

We believe that whether or not the sale of the long-lines communications facilities used for commercial purposes would bring about the desired objective of improved services and lower rates is unknown at this time.

Well, of course, in a literal sense that is true. But, have you not been reassured, Mr. Sharp, by the testimony given here this morning to the effect that prior to any sale the Air Force, the Department of Defense, will require the successful company to enter into firm arrangements lasting for a specified time as to rates and types of services to be furnished?

Mr. SHARP. Senator Bartlett, the arrangements would be without change for a period of 1 year under the act without approval of either

the FCC or the Alaska commission. That does not concern me so much as to whether or not the overall feasibility is there, Senator. If the overall feasibility is there for improved service and lowered rates, backed up by engineering and financial analysis, we would be much more assured that a statement that after the fact the company was losing money and the rates had to be restored to a higher level.

Senator BARTLETT. Well, this, of course, would be partly within the province of the State agency to determine the rates, and on the Federal level, the FCC. I think you and I would both agree it would be very difficult for any company to increase the rates from the point at which we now find them. You have illustrated very adequately the high rates that are now paid.

Would you assume that in any circumstances they could go beyond those figures?

Mr. SHARP. Yes; I can. Let us presume all the circuits that would be initially leased from the Government, assuming only the commercial portion is sold, no longer became available, and the private company had to put in facilities from Fairbanks to Nome or Fairbanks to the Aleutians. That would be of concern, not only as to whether they would be available, not only when they were surplus, but they would be available for some guaranteed period of time to assure the private operator and the State that the entire State would be served without vast investment to get into these remote areas.

Now, I understood the statement this morning by the Air Force witnesses that the circuits not required by the Government could be made available in the definition of the word "transfer." But would they be made available in the next 15 or 20 years?

Senator BARTLETT. I thought that Mr. Perry said that they would be made available with the one qualification that in the case of emergency the military would have the right of preemption, and otherwise the civilian traffic would, from the outset, be permitted to flow over these lines.

Mr. SHARP. Maybe I misunderstood the witness, Senator, because I understood him to say if they were not required by the Government. If I misunderstood him and they are willing to guarantee these circuits, then it changes the picture.

Senator BARTLETT. I think that, again, Mr. Chairman, Mr. Perry should address himself to that picture.

Would you say though, Mr. Sharp, that the fact as related by General Gould and Mr. Perry, that seven common carriers are interested in offering tenders is an indication that they believe that this system would now give them a reasonable rate of return on their investment but, perhaps, more importantly, that they foresee an Alaska development which would make the system highly profitable in the years immediately ahead and thereafter?

Mr. SHARP. Well, Senator, I have not seen any firm solicitation of bids. Letters of intent certainly indicate to me that they think there is feasibility or they would not respond at all or at least they want to get enough information to determine it.

Senator BARTLETT. Finally, I would like to resubmit, in a sense, the question that Chairman Stennis put to you. If it were the judgment of the committee that the engineering and feasibility study which Governor Egan recommended should be made in advance of any dis-

posal of it should not be approved, would Governor Egan then oppose the immediate enactment of this bill?

Mr. SHARP. I do not think he would, Senator. I think he feels that it would be helpful in the evaluation of the bids and the establishment of the books of both the Federal and State Government for regulation. It is an expense that will have to be undertaken in time or, at least, most of it would have to be undertaken in time.

Senator BARTLETT. The Governor said the need for capital improvements is obvious. Improved and additional services are required, lower rates are desirable, and he went on to express the hope that the Federal Government will proceed with those capital improvements and reduce rates and give improved services. Of course, that has been our problem primarily in that the Government has not been willing to improve these services or, alternatively, has not been able to get the money from Congress to do so, because, for one reason, as Mr. Perry or General Gould said, this is one part of the defense budget, and it probably has pretty low priority rating, and next, because the DOD has thought for some years now that each Congress would approve a bill of sale. I would be rather pessimistic about the outlook for the required millions of dollars to make these improvements that are so urgently required. It is just a personal conclusion.

Mr. SHARP. Our point there, Senator, is the fact that there has been legislation to authorize sale for a number of years, which appears to have stopped modernization of the plant.

We would hope that if that status quo as to authorization continues that they will not continue to ignore the capital improvement needs because it is a pretty sad situation right now.

Senator BARTLETT. I am sure they would have been glad to put in these improvements some little while ago if they could have gotten the money.

Mr. SHARP. I am sure you are correct, Senator.

Senator BARTLETT. That is all.

Mr. KENDALL. Will you preside for the time being, Senator?

Senator BARTLETT. Although I am not a member of the committee I am going to preside temporarily. Thank you, Mr. Sharp.

Mr. KENDALL. Mayor Rasmuson.

Senator BARTLETT. Are you by yourself, Elmer?

Mr. RASMUSON. Mr. Harris, a member of our telephone department of the city of Anchorage, is with me.

Senator BARTLETT. Will you come forward, too, Mr. Harris, please.

All right, Mr. Mayor. Your statement, following the rule established by the chairman, who has returned—here is Mayor Rasmuson.

Senator STENNIS. All right. You will pardon that interruption. I had to see about a matter that is coming up tomorrow that required attention.

Senator BARTLETT. He just started.

Senator STENNIS. Did Mr. Sharp have anything further or any new points?

Senator BARTLETT. Only that Mr. Sharp repeated to me that which he said to you, that the Governor would prefer these amendments. He would prefer an engineering and feasibility study, but he would not object to the bill in its present form.

Senator STENNIS. All right. I just want to keep up with all the major points. Thank you, Mr. Sharp, very much for your testimony.

All right, Mayor. You have a prepared statement here, I see, and I am glad you do. Do you want to put all of it in the record, and then summarize it?

Mr. RASMUSON. It will take me 7 minutes to cover it.

Senator STENNIS. You want to read it? All right, you may proceed.

STATEMENT OF HON. ELMER RASMUSON, MAYOR OF THE CITY OF ANCHORAGE, ALASKA; ACCOMPANIED BY JOHN T. HARRIS, JR., MANAGER, CITY OF ANCHORAGE, ALASKA, TELEPHONE UTILITY

Mr. RASMUSON. While I appear in my capacity as a civic official, I testify also from the background of a pioneer resident of Alaska and a banker.

First, I want to thank you for this privilege. We have a great stake in this bill. Our city owns and operates the largest telephone operating company in Alaska. We service not only the city but the entire Anchorage borough of estimated 117,000 population—almost half the people of the entire State. Since our city is a service center for a great area, we feel a deep obligation in advancing the cause of modern communication for all of Alaska. Personally, I regard the concept of this bill as one of the most important considerations by the Congress since statehood, and it represents a program which I have urged for many years.

Basically, the concept of the Alaska Communications System is out of date with modern Alaska. Prior to World War II, the communications between the territory and the rest of the world were by telegraph and the civilian needs were recognized as coequal with those of the military and adequately serviced under the then existing technology.

The facilities of voice transmission installed for the accomplishment of the military mission were tardily extended and on a substandard basis to civilian usage after the war. The treatment of civilian patronage as having no justification in itself has deepened in these past 20 years of neglect. The transfer of the ACS from the Army to the Air Force was made purely for military reasons and the old attachment for civilian needs was completely severed.

As a consequence, Alaska has made gigantic strides forward in transportation, finance, merchandising, and industry but on the halting leg of an outdated communications system.

There has been no program for the future, no capital funding for civilian needs, either present or anticipated. Service is poor and the charges excessive. Alaska has the highest toll rates of the 50 States. We have no direct distance dialing, no reduced toll rates after 8 p.m. Although currently, high-speed computers have been installed by the State, banks and industry—we cannot get full utilization by tying in branch locations. We cannot get economical rates for data processing even at nighttime when the general usage is low.

When the ACS has reduced rates on station-to-station calls, the person-to-person rates have been raised to offset. Yet the person-to-person call is essential in regular business communication. At the same time, the telegraphic service has steadily deteriorated to the point where we must use the high-priced telephone.

Having no service philosophy but with monopolistic powers, it is natural that the position of the ACS inhibits the proper development of the local telephone companies. The expenditures and plans of the operating companies cannot be integrated with ACS, nor can they make their own long distance interconnects. The toll compensation to the Alaskan companies is on a per-message basis—regardless of the time and charges of the particular call. As a result, the operating company in Alaska gets the lowest share of toll revenue in any of the 50 States and has to pass this deficiency on in the form of higher local charges to its customers.

No public service commission reviews the ACS rates in the public interest. How can we ever get proper ratemaking as long as the ACS is allowed to treat its operating and statistical information as “classified information.”

I maintain that the solution to the problem is, to start with, a new philosophy for the long lines in Alaska—that of a regulated public utility with a service concept for all its users.

To put this philosophy into practice necessarily means the separation of the predominantly commercial operations from that of the military. Each operation has its own objectives, methods, and controls.

The procedure, in my opinion, requires the sale of the commercial portion of the ACS. I say sale, rather than lease, because the benefit of programed expansion can best be achieved by the capital investment of the operator. This should be to an experienced and qualified private operator rather than to a Federal- or State-owned development corporation. Our State has neither the funds nor the background comparable to any of several interested private operators.

I want to emphasize that my recommendations are with consideration for the best service for all areas and users in Alaska. The military can and should obtain the desired service from the privately owned utility as is done in the other 49 States. Furthermore, I am assuming that the military will retain ownership and control of the predominantly military used lines, such as White Alice. At the same time, the military should continue to make available their facilities to the civilian population on a reasonable charge basis and tied into the general commercial network. I understand from the testimony that has been given so far that that is the position of the Air Force.

Now, the safeguards and the mechanics involved in the proposed sale to private operation have been adequately covered in the testimony of Chairman FitzGerald of the Federal Field Committee for Development Planning in Alaska. I support the principles expressed in his testimony.

I wish to summarize the importance of the contemplated sale in the future of Alaska and stress the necessity of action now.

I will depart from my text and state that, if I understand the testimony given by Commissioner Sharp correctly, I am opposed to any further delay. I have complete confidence that the information that has been already developed by the Air Force, and is in the course of being developed, supplemented by the offers that will come from private operators, is completely adequate to take care of the needs of our State, and we need to have this action up north now.

I know you are all familiar with the size of Alaska. A large country needs quick and economical communication as an offset to distance.

Improved quality of telephone service and reduced cost of such service is doubly important in Alaska to offset other high costs. If we could talk together over distances, we need not spend the traveltime and money of getting together in person. Separate accounting and machine installations would be eliminated if we have economical message transfer. The key to reduced interest rates and the tapping of central investment funds is through cheap and constant communication with money centers.

Our State cannot develop in our modern society and be shut out from the benefits of the new development of the outside telephone networks. The value of the Federal and State support of research at the University of Alaska could be greatly enhanced if we had an adequate communications system.

One of the most important decisions facing the Anchorage community is whether to retain the municipally owned telephone system or sell it to a qualified private operator.

The decision could be made with much greater assurance for the future if our Alaskan system was owned and operated by a qualified, regulated public utility company.

I want to say and emphasize that the life of any people can never be expressed entirely in economic terms. So, also, the human happiness and cultural welfare that would flow to the people of Alaska through improved communication cannot be measured in dollars.

We need to build up our resident population with special consideration for our smaller communities and remote sites. To do this, we must have the personal comfort and security that comes from the telephone at hand in all its extended services. I feel that the opportunity to call and to hear has become an American right.

In conclusion, I say that Alaska is poised on the threshold of economic development. We rank fifth in population among all 50 States. Our needs demand this change; the volume I feel will support the change.

Senator STENNIS. All right, Mayor. That is a good statement. Do you expect a better rate, then, under this new program and if this bill passes? Do you expect a lower rate—

Mr. RASMUSON. Yes, sir.

Senator STENNIS (continuing). On telephone calls than you have now?

You are hardly in position to say how much, but since you do have in mind a reduction, how much do you expect it to be?

Mr. RASMUSON. I would be surprised if it would not be at least 20 percent.

Senator STENNIS. Yes. All right.

I am not contrasting one personality with another at all, but the Governor makes the point that section 10 of the report to which Mr. Sharp referred—financial evaluation of the Alaskan Communications System completed in 1963 by the Middle West Service Co. of Chicago for the Air Force—contained the recommendation that:

We recommend as feasible the offer for sale of the total communications complex. However, such recommendation is made only on the basis that the Government will contract for the continuation of its full services for a minimum period of 5 years.

Now, the point was made that there had not been any report, broad report, on this whole question except that one in 1963, and which recommended that the total complex be sold.

What is your response to this, and the suggestion that there ought to be another survey before another approach is adopted? What is your comment on that?

Mr. RASMUSON. If I understand that previous recommendation to be that we should sell the entire communication complex presently operated by the Air Force, including White Alice, I say that is impractical, and it is impractical because the bulk of the message service there is for military purposes, and it is not for commercial usage.

I believe that in this report that was mentioned before, certainly in the backup figures, that there should be statistics and our counter information to break down that which we call the commercial service of the ACS as opposed to BMEWS and White Alice. I think we do have those figures, and it has been testified already, even under the way it has been operated at the present time, not using the most modern type of efficient equipment, and developing our rates, that the ACS is on a break-even basis now.

Senator STENNIS. The ACS is on what?

Mr. RASMUSON. ACS is on a break-even basis.

Senator STENNIS. So you think, for the reasons given, that the recommendation in 1963 was in error and reached the wrong conclusions? Still it is the only one that has been made, and that was the recommendation made to the Air Force by a company that the Air Force selected themselves.

Mr. RASMUSON. Well, I feel that, for the reasons that I tried to cover in my testimony, that there are these considerations that have to do with the development of our State which I have spent a considerable amount of time in trying to advance, that we cannot think in terms of \$173 million disposition. Rather, we must think in terms of a disposition of that service that will help our civilian development.

Senator STENNIS. I believe the testimony was that it cost \$277 million.

Mr. RASMUSON. It is even worse.

Senator STENNIS. The military part of it.

If the operator under this bill, the purchaser, has to buy the entire system, which cost \$277 million, with something off for depreciation, of course, you would pay an awfully high rate, wouldn't you?

Mr. RASMUSON. I do not think he is going to do it.

Senator STENNIS. I beg your pardon?

Mr. RASMUSON. I do not think anyone is going to buy that, and I do not think it is justified.

Senator STENNIS. All right.

You mentioned your interest rates there and the lack of communication and all. What is the going rate of interest now?

Mr. RASMUSON. Like everywhere else, the going rate depends upon the type of credit, and it runs all the way from, currently $4\frac{3}{4}$ to 8 percent.

Senator STENNIS. All right. Senator Bartlett, do you have some questions for the mayor?

Senator BARTLETT. Mayor Rasmuson, what does the city of Anchorage, see, if you can tell us, as its role in enhancing the results of any disposal action in terms of the public service considerations?

Mr. RASMUSON. Well, I could briefly comment on that. I think Mr. Harris could probably do it even better than I can.

Senator BARTLETT. Let Mr. Harris do it, then.

Mr. HARRIS. Mr. Chairman and Senator Bartlett, by public service I assume you are talking about additional services.

Senator BARTLETT. Yes.

Mr. HARRIS. There could be considerable enhancement. At the present time, of course, direct distance dialing has been mentioned, we do not have this. We do not have the benefits of lower costs from it.

In addition to that, we do not have, which has been mentioned, the reduced rates in toll. We have no teletypewriter exchange services, we cannot secure it, which will permit low-cost transmission of material either between the States or Canada, and in the written form at any hour.

We have no wide area telephone service, for example, where you can call on a package rate. We have no telpak service, which is common in the south 48, where you can buy packages of communication services.

The primary thing, I think, that would happen would be a lowering of rates. I use as an example that you can fly, as we know, from Anchorage to Seattle for \$99. To make the same time span of 3 hours by telephone is \$324. This, we think, can be improved.

Senator BARTLETT. Now, here I understand you can call from Washington, D.C., to San Francisco or wherever for a dollar for a certain time following 6 p.m., or whatever hour it may be.

Can you make a like call from Alaska for a dollar?

Mr. HARRIS. No, sir; you cannot.

Senator BARTLETT. Is there a night rate?

Mr. HARRIS. Yes, sir; there is a night rate. There is a station-to-station and a person-to-person. In my particular testimony as attachments, are the rate schedules from Anchorage to Washington, D.C., station-to-station for the first three minutes during the day, are \$7.50; persons-to-person \$10.50. For each additional minute \$2.50.

On nights and Sundays, station-to-station the first three minutes, \$6; persons-to-person \$8.50, and each additional minute \$2. These are our rates.

Senator BARTLETT. Thank you, Mr. Harris.

Now, Mr. Mayor, as I understand what you have to say in the concluding paragraph on page 1 of your statement, was this essentially that before World War II. The WAMCATS, Washington-Alaska Military Cable and Telegraph System, operated this service, and actually they had no military functions to perform. Their business was almost exclusively civilian because there was no military in Alaska.

Following World War II, and when, first, the Army and then the Air Force moved in this expanded scheme of things, their interests primarily were concentrated upon their military functions and, therefore, and, perhaps, understandably, the civilian part of it lagged. Is this what you had to say?

Mr. RASMUSON. Yes, sir.

Senator BARTLETT. That is, we cannot be necessarily critical of either branch, either service, because the situation has changed and the job they had to do in the old days was not theirs of a more modern times.

Mr. RASMUSON. The objectives and the missions and the requirements were all different.

Senator BARTLETT. Thank you. That is all I have.

Senator STENNIS. All right. Mr. Kendall, do you have any questions?

Mr. KENDALL. I have no questions.

Senator BARTLETT. I will say it is an excellent statement.

Senator STENNIS. Here is Mr. Harris' statement. It is a little long with all of its exhibits. Which one of these exhibits did you want especially to go in? We will put all of it in our files and put such ones in the record as you especially want.

Mr. HARRIS. Mr. Chairman, I think one thing that has been introduced by the mayor that is very important. It is the first time it has been introduced, and that is the rate of return to the operating companies.

As the mayor indicated, because of the toll settlement arrangements with ACS, and the regulations from the Federal Government under which they must operate, we do not get an adequate share of our return of the toll that is generated.

Senator STENNIS. Excuse me, if you want to testify further, we can take you after lunch. We are running over. I have some other appointments. I just asked you which of these you want to put in the record, these exhibits.

Mr. HARRIS. I would prefer to have them all in, sir, if I may.

Senator STENNIS. All right. If you want to testify further, we will hear you briefly after lunch.

(The prepared statement of Mr. Harris follows:)

Mr. Chairman, I am John T. Harris, Jr., Manager of the City of Anchorage, Alaska Telephone Utility; I have held this position since September 1960. Previous to coming to Anchorage I was employed by the Illinois Bell Telephone Company for over 21 years. In addition to being Manager of the Telephone Utility, I am Vice-President of the Alaska Telephone Association, Inc.

To the question of whether the Government should sell all or part of the governmental communication facilities in Alaska, I must limit my remarks to that portion known as the Alaska Communications System.

It is assumed that the Committee has been briefed by others as to the role that "ACS" plays in the communications complex in Alaska. My personal knowledge of this role begins in September 1960. At this time ACS was a responsibility of the Department of the Army, and was operated more or less as a special function of the Signal Corps branch, with its officers and men apparently considering their assignment to ACS as a career job. Their efforts to provide long line communications included rather loose interpretations of Army Regulations and Procedures which did permit some latitude for local recognition of problems. However, the lack of capital monies for expansion; the necessity to depend upon Congressional appropriations for operational funds; and the expressed feeling of higher echelon policy makers that they were granted a "monopoly" by Congress to provide long line communications; gave rise to less than adequate service, excessively high toll charges for subscribers, and continuing friction between the policies of ACS and the Alaskan telephone operating companies, who were anxious to improve service and provide services similar to those found in the "south 48."

With the transfer of ACS to the Department of the Air Force in July 1962, conditions became worse rather than better. Less monies for capital expansion became available, fewer dollars were appropriated for the operation of the system, and more important—Air Force Regulations and Policies were *strictly* applied to a commercial consumer function.

The end result has been that ACS, as the long lines carrier for Alaska has:

- 1) *Not* kept pace with the technological advances made by the industry,
- 2) *Not* permitted Alaskan consumers to benefit from these industry advances,

3) *Not* provided Alaskan consumers with the communication services to which they are entitled, or that consumers in the other 49 states enjoy,

4) *Not* considered that the economic welfare of Alaska, and its continued development, is wholly dependent upon adequate low cost communication,

5) *Not* considered the self help efforts of the Alaskan telephone operating companies to improve, expand, and modernize their own systems,

6) *Not* permitted the Alaskan telephone operating companies to share adequately in the revenues produced by the subscribers of the Alaskan operating companies,

7) *Not* cooperated with the Alaskan operating companies by not considering separate local and long lines communications problems as a single problem.

The above 7 points are not an indictment of the officers, men or civilian employees of ACS—but rather an indictment of the policy of operating a commercial consumer function as if it were a tactical unit of the Air Force, with complete disregard for welfare and economic well-being of the commercial consumers, who have little or no recourse.

As manager of the largest telephone operating company in Alaska—a company incidentally whose citizen-subscribers have bonded themselves for \$15,500,000 since 1963, to improve and expand their system—it is my opinion that the commercial consumer of Alaska has a right to demand that he be considered something more than a second class citizen when it comes to meeting his communication needs.

In my opinion this Committee has but three routes to follow :

1) It can recommend that the ACS function of the government owned communication facilities in Alaska be retained on an "as is" basis.

2) It can recommend that the ACS function of the government owned communication facilities in Alaska continue to be owned by the Government but operated as an "industrial fund" entity, separate and distinct from the Department of Defense.

3) It can recommend that the ACS function of the government owned communication facilities in Alaska be sold to private enterprise on a negotiated sale basis.

It is my recommendation to this Committee that the ACS functions of the government owned communication facilities in Alaska be sold, with a further recommendation that Alaskan operating companies be given first consideration to purchase those intra-state facilities in which they are vitally interested.

I wish to thank you, Mr. Chairman, and members of the Committee, for this opportunity to present to you the position held, and the opinions of, a manager of an Alaskan telephone operating company who must work face-to-face with ACS every day of every year. It is my hope that this presentation has been of assistance to the Committee in its consideration of the matter before it—should any question arise, or further information be desired, I am at the convenience of the Committee.

J. T. HARRIS, Jr.,
Manager, Telephone Utility.

ATTACHMENT 1

1) ACS has *not* kept pace with technological advances in the industry.

a) Since prior to 1960 the introduction of Direct Distance Dialing has been promised by ACS—yet does not exist today—nor can ACS provide a firm date in the foreseeable future. Several times within the intervening period—1960–1966—the Alaskan operating companies have been advised to prepare for Direct Distance Dialing, but no information on what to prepare for has been forthcoming.

Direct Distance Dialing is widespread in the other 49 states; it was developed as a service improvement and a cost reduction method. Many thousands of dollars of operating expense can be saved by Alaskan operating companies, especially in the accounting area, if DDD were available today.

It is of interest that other agencies of the Government have availed themselves of this advanced service by installing DDD for military use at Neklason Lake, Alaska. These calls are handled toll free and can access the free world.

b) Industry advances in long line circuitry have been utilized by both the Department of Defense and private carriers—the use of circuitry engineered for global and space use is well known. Yet today ACS provides a single submarine cable, backed up by a few microwave circuits leased from the Canadians,

to provide communication between Alaska and the rest of the world. No new circuitry between Alaska and the other 49 states has been constructed during my tenure at Anchorage, even though the demands of the consumer have steadily increased.

c) Billing and accounting improvements such as mark-sense of toll tickets is "under study" by ACS—yet industry has had this and other improvements in effect for years.

ATTACHMENT 2

2) ACS has not permitted Alaskan consumers to benefit from these industry advances.

a) The lower costs derived from such service improvements as mentioned in Attachment 1 have historically resulted in lower costs to those operating companies who put them into practice. These savings are usually followed by lower rates to consumers, or at least a stabilization of expenses. These, Alaskans have been denied.

b) The use of improved circuitry made possible by technological advances permits greater flexibility in the provision of sufficient reliable speech paths—today there is one path to Sitka, with no back-up. It is not uncommon to have to wait for hours, to complete calls to Alaskan communities such as Kodiak, Dillingham, Kenai, because of a lack of facilities. Only under unusual circumstances does this happen in the other 49 states.

c) The major long line circuitry used by ACS for inter and intra Alaska calls was provided by the White Alice and BMEWS Defense Systems—a military necessity. Yet the Alaskan consumer must pay an exorbitant toll charge for using the same facilities that he has already contributed to by way of federal taxes.

ATTACHMENT 5

5) ACS has refused to recognize the self-help efforts of the Alaskan telephone operating companies to improve, expand and modernize their own systems.

a) All too often the Alaskan operating companies spend thousands, even millions of dollars to expand and improve their systems only to find that ACS is not prepared or cannot carry its responsibilities for the resulting from local improvements.

b) ACS refuses or is unable to recognize improved techniques of billing and accounting as proposed by Alaskan operating companies on the grounds that these improved techniques and methods conflict with Department of the Air Force Regulations or Policies.

c) Efforts by Alaskan operating companies to meet the special service demands of their subscribers have been thwarted time and again by the refusal of ACS to lease circuitry, provide necessary terminating equipment, or acquiesce to institute a new service. ACS' refusal is based on their position that ACS is the "franchised long lines carrier for Alaska." Yet they do not provide the services for which they claim responsibility.

ATTACHMENT 6

6) ACS has not permitted Alaskan telephone operating companies to share adequately in the revenues produced by the subscribers of the Alaskan operating companies.

a) The telephone industry has developed, over the years, a series of agreements between the Bell System and the Independents, and between the individual Independents as to how toll revenues are to be shared. These agreements are constantly being reviewed, studied and revised as the techniques of the industry change.

ACS, in negotiating the revenue sharing of Alaskan toll with the individual operating companies has always accepted the industry guides in principle—but in practice has not followed them, unless it is to their advantage.

This has resulted in Alaskan operating companies securing a less than adequate share of the revenues their subscribers generate. In 1963 reporting

members of the United States Independent Telephone Association realized \$.343 of each revenue dollar from toll—the City of Anchorage \$.073. This is typical.

If the operating company is not satisfied with its share of the toll revenues, as negotiated with the ACS Contracting Officer there is but one recourse—appeal to the Armed Forces Contract Board of Appeals, a procedure akin to stepping into a bog.

Alaskan operating companies are compensated on a per message basis—i.e.—so much per call, regardless of the charge made by ACS to the subscriber. Anchorage, for example, receives \$.9399 per message whether the toll charge is \$1.10, \$110.00, or \$1,100.00. Among the Alaskan companies the general consensus is—"negotiating toll agreements with ACS is like negotiating with the Russians—almost but not quite impossible."

ATTACHMENT 6A

ACS billing toll versus city revenues

Month	Gross billing	Payment to city	Net to ACS	Paid calls sent	Collect calls received	Paid collect (sent)
<i>1966</i>						
January	\$302,560.27	\$34,745.75	\$267,814.52	30,135	8,153	5,512
February	250,718.32	28,725.69	221,992.63	24,912	7,020	4,281
March	337,929.30	40,227.12	297,701.58	34,695	10,153	6,057
April	352,561.29	42,119.74	310,441.55	37,108	8,789	6,621
<i>1965</i>						
January	210,809.40	23,582.56	187,226.84	20,266	5,936	3,713
February	228,191.96	26,235.90	201,956.06	22,681	6,177	4,288
March	270,656.85	31,188.70	239,468.15	26,582	7,457	5,745
April	312,560.81	36,597.83	275,962.98	31,230	8,837	6,579
May	294,874.24	35,319.56	259,554.68	30,350	7,942	6,514
June	323,497.51	42,137.60	281,359.91	35,957	9,156	8,594
July	298,857.98	40,441.08	258,416.90	33,991	9,851	8,221
August	297,721.37	42,358.94	255,362.43	35,871	10,255	8,138
September	327,606.20	44,478.42	283,127.78	38,359	10,185	7,742
October	322,099.64	39,804.30	282,295.34	33,483	11,289	6,444
November	300,222.66	37,430.58	262,792.08	32,327	8,809	6,185
December	312,660.19	36,152.78	276,507.41	31,211	8,579	5,928
Total	3,488,758.81	432,728.25	3,064,030.56	372,308	104,473	78,091
<i>1964</i>						
January	210,096.51	17,836.58	192,259.93	20,935	6,172	3,884
February	187,644.88	16,705.44	170,939.44	19,518	5,655	3,942
March	230,517.00	18,753.04	207,763.96	22,373	5,279	4,569
April	329,436.08	24,359.30	305,076.78	28,305	6,990	7,815
May	279,420.69	32,751.36	246,669.33	27,731	7,892	6,338
June	277,362.86	35,104.95	242,197.91	29,664	8,815	6,684
July	280,364.10	36,375.07	243,989.03	30,713	9,036	6,940
August	293,974.53	38,767.59	255,206.94	32,794	9,694	7,331
September	284,921.12	36,391.05	248,530.07	30,443	9,378	7,152
October	274,588.82	34,773.95	239,814.87	29,473	8,528	6,521
November	248,282.23	29,871.43	218,410.80	25,705	6,820	5,333
December	283,195.20	31,905.38	251,289.82	28,055	6,317	5,464
Total	3,175,804.02	353,655.14	2,822,148.88	325,649	90,576	71,473
<i>1963</i>						
January	202,474.66	17,351.56	185,123.10	19,710	7,606	3,488
February	158,541.58	15,204.68	143,336.90	17,954	4,964	3,391
March	174,775.29	17,247.14	157,528.15	20,898	4,729	3,685
April	190,006.79	19,179.67	190,827.12	22,554	6,315	3,912
May	213,155.11	21,244.79	191,910.32	25,496	6,254	4,673
June	208,556.68	21,903.62	186,653.06	26,218	7,622	5,151
July	207,728.75	22,330.25	185,398.50	26,189	7,407	5,165
August	220,572.17	23,462.42	197,109.75	27,962	8,354	5,372
September	218,047.16	20,469.85	197,577.31	22,962	9,275	4,393
October	220,646.25	20,416.27	200,229.98	23,641	7,569	4,584
November	189,149.90	17,441.20	171,708.70	20,596	5,616	3,967
December	215,694.78	18,630.75	197,064.03	22,557	5,045	4,079
Total	2,439,349.12	234,882.20	2,204,466.92	275,235	81,256	52,060

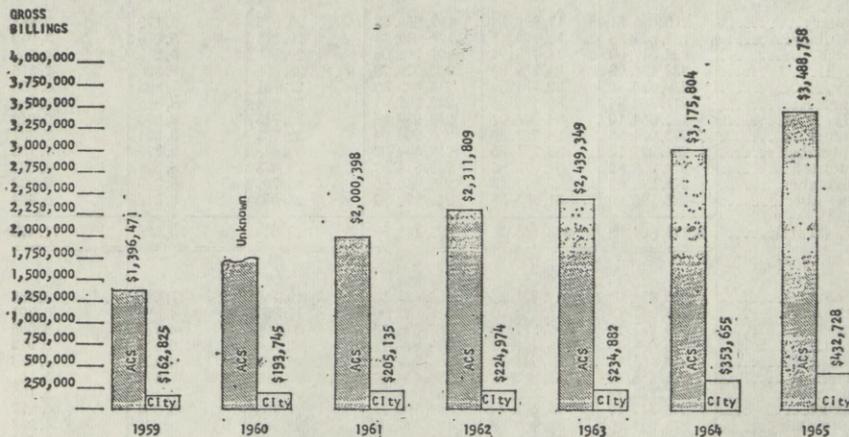
ACS billing toll versus city revenues—Continued

Month	Gross billing	Payment to city	Net to ACS	Paid calls sent	Collect calls received	Paid collect (sent)
<i>1962</i>						
January.....	\$172,633.13	\$15,779.70	\$156,853.43	18,753	5,497	2,935
February.....	161,494.16	14,343.87	147,150.29	16,701	5,688	2,668
March.....	175,947.17	16,479.76	159,467.41	19,535	5,612	3,294
April.....	191,912.78	17,631.17	174,281.61	21,218	5,148	3,743
May.....	214,742.11	20,071.39	194,400.72	23,637	6,950	4,208
June.....	210,640.66	20,803.73	189,836.93	24,124	3,214	4,102
July.....	203,284.80	21,833.55	181,451.25	26,438	6,308	4,377
August.....	211,742.59	23,089.38	188,653.21	27,759	6,792	4,907
September.....	193,714.81	20,036.36	173,678.45	24,077	6,185	3,991
October.....	215,239.64	20,801.67	194,437.97	24,878	6,536	4,265
November.....	175,166.06	17,370.11	157,795.95	21,109	4,928	3,422
December.....	185,561.22	16,733.26	168,827.96	21,069	3,214	3,362
Total.....	2,311,809.13	224,973.95	2,086,835.18	269,298	71,072	45,274
<i>1961</i>						
January.....	133,947.05	12,569.35	121,377.70	14,866	4,409	2,323
February.....	120,729.85	11,666.63	109,063.22	13,455	4,717	2,337
March.....	152,761.84	14,556.84	138,205.00	16,671	6,023	3,012
April.....	147,515.15	14,293.72	133,221.43	16,775	5,115	2,947
May.....	171,310.39	17,189.43	154,120.96	20,631	5,353	3,427
June.....	166,668.94	17,083.63	149,585.31	20,701	4,937	3,394
July.....	167,678.21	17,291.79	150,386.42	20,227	5,711	4,175
August.....	201,808.25	20,420.39	181,387.86	22,789	9,486	4,384
September.....	179,087.84	17,815.97	161,271.87	20,791	6,844	3,439
October.....	180,731.26	17,603.00	163,128.26	20,287	6,658	4,013
November.....	178,269.15	16,446.78	161,822.37	19,119	6,692	2,950
December.....	199,890.30	17,389.34	182,500.96	20,755	5,823	3,290
Total.....	2,000,398.23	194,326.87	1,806,071.36	227,067	71,768	39,691

ATTACHMENT 6B

COMPARISON
1959 -- 1965

ACS GROSS BILLING VS CITY SHARE



ATTACHMENT 7

7) ACS has not cooperated with the Alaskan operating companies by not considering separate local and long lines communications problems as a single problem.

a) The Alaskan operating companies have always provided ACS with statistical data that is requested, and have kept ACS apprised of their plans and

programs for expansion into the future. This approach is not followed by ACS on a reciprocity basis. Requests for statistical data such as revenue-expense statements, unit costs, etc. are refused on the basis that this is "privileged information."

b) ACS does not apprise Alaskan operating companies of its plans or programs until ACS is ready to implement them; then the companies are notified of when the plan or program is effective. The rate changes for intra and inter toll rates were not discussed with the operating companies, no public hearings were held wherein the companies or the public could express opinions—they were just put into effect.

c) All Alaskan operating companies are subject to some form of regulation; the privately-owned by the State Public Service Commission; the municipally-owned by City Councils or Utility Boards—and effective cooperation and exchange of data can be made mandatory upon the operating company. ACS on the other hand is regulated only by the Department of the Air Force and must follow its Regulations and Policies.

ACS can, and does, refuse or ignore requests from Alaskan operating companies for cooperative measures; exchange of data; coordination of plans and programs; and service improvements.

Even though both ACS and the Alaskan operating companies have a joint responsibility to provide modern, up-to-date telephone service in Alaska—the degree of acceptance of that responsibility, by cooperating with each other, is very low on the part of ACS.

Senator STENNIS. After lunch we also have Mr. Garrett, is he here? Mr. Altepeter, Mr. Jarmon, Mr. Butler. Are there any others here to testify?

Mr. REIMER. Reimer.

Senator STENNIS. Who are you with?

Mr. REIMER. I am going to represent the Alaskan Telephone Association, all operating companies.

Senator STENNIS. All right. That is fine. We will hear you.

I hope you gentlemen will have your statements ready, and we can proceed right along. When we do recess, it will be until 2:30. I hope that we can finish within an hour and a half anyway, although there will be no arbitrary limit put upon anyone. We will go over until tomorrow if necessary.

All right. With the thanks of the committee, we will take a recess until 2:30.

(Whereupon, at 12:45 p.m., the above subcommittee recessed, to resume at 2:30 p.m. the same day.)

AFTERNOON SESSIONS

(Present at this point: Senators Stennis (presiding), Symington, and Bartlett.)

Senator STENNIS. The committee will come to order.

I will ask Mr. Garrett, Mr. Arthur Garrett, president of Alaska Power & Telephone Co., to come forward.

Mr. Garrett, we are glad to have you. Have a seat. You have a prepared statement, I believe.

STATEMENT OF ARTHUR GARRETT, PRESIDENT, ALASKA POWER & TELEPHONE CO.

Mr. GARRETT. Yes, I do, sir, and I would like to just jump through it. The first thing I would like to do, it has not been done for the record—

Senator STENNIS. You want to put it all in the record.

Mr. GARRETT. If I may.

Senator STENNIS. And then you can sum up. Without objection, the entire statement will be put in the record.

(Mr. Garrett's prepared statement follows:)

STATEMENT OF ARTHUR GARRETT, PRESIDENT, ALASKA POWER & TELEPHONE CO.

Our company which is one of the smaller Public Utility companies in Alaska was originally incorporated in 1944 to take over a rural telephone system in the Olympic Peninsula of the State of Washington. Now we operate exclusively in Alaska. We own and operate electric power and telephone systems using the same pole lines in four diversified small Alaskan communities: Skagway, at the head of the Inside Passage from Seattle to Alaska; Tok, the Cross Roads Center on the Alaska Highway between the Yukon and Fairbanks; and Craig and Hyda-burg, two small communities on Prince of Wales Island in Southern Alaska. Our four telephone exchanges have a total of between 400 and 500 customers.

I started in the Public Utilities business 40 years ago with Cities Service Company in New York City, and it has been my principal occupation since, although by profession I am a lawyer.

I. DOD SHOULD DISPOSE OF ACS

As far as I know there is general agreement that the Department of Defense and the Air Force should be relieved immediately of the Alaska Communication System. If that is the case, it is not necessary to labor the point further.

II. TRIBUTE TO PAST OPERATION OF ACS

As a commercial public utility operator, I want to pay tribute here and now to the Alaska Communication System. It has been most successful in providing Alaska with badly needed and costly long distance telephone and telegraph facilities. I want to testify that I doubt any other agency or any company would have done a better job on the whole than the Alaska Communication System has done.

Alaska should be grateful to the Signal Corps which pioneered the operation, and to the Air Force which has acted as an Air Cover in keeping it alive, and above all to the permanent Civilian personnel of the ACS who have adroitly, stubbornly and gallantly held the ACS to commercial standards in spite of the Pentagon's basic lack of aptitude in the telephone business, and in spite of the telephone industry's impatience and lack of understanding of the difficulties inherent in the ACS position.

III. DISPOSAL SHOULD BE BY SALE

Disposal of the main portion of the ACS should be by Sale. Lease or contract operation is generally a short term, short sighted, cheapie method of doing a Long Distance Telephone job whereas the sound development of Alaska requires the sound, careful, long term planned development of Communication facilities which only intelligent ownership has demonstrated to be economic.

IV. SALE SHOULD NOT BE TO HIGHEST BIDDER

Traditional Government policy has favored sale of Government property to the highest bidder on the theory that the man who pays the most will do the most with it. This is sound business when applied to the sale of iron and shoes and other commodities. It is not sound business when applied to a Public Utility. This Committee may remember the economic crimes and misdemeanors leading to the enactment by the Congress of the Public Utility Holding Act. The major crime and the basic economic crime was the competitive bidding by different Public Utility Companies for desirable Public Utility properties. This led to increased prices for these properties, difficulties in financing and the train of evils such as inflated rate bases, rate increases, securities manipulations, which brought down the wrath of the country on the heads of the Public Utility Industry in the form of the Public Utility Holding Company Act.

Surely Committees of the Congress should not encourage competitive bidding for ACS when they can remember the results of competitive bidding in the Public Utility Industry and the drastic cure by the Congress in the form of the Holding Company Act.

Competitive bidding for ACS can only mean a higher return for the seller at the expense of the rate payer. It is like a father putting up the land his son farms at auction to the highest bidder. The highest bidder will have to charge the farmer's son a higher rental to amortize the bid up price he paid the father.

V. SALE SHOULD BE TO CONSORTIUM

The question then is: Who ought to buy ACS? And the economic answer is: the one or ones who know the most about it and who can operate it best.

I submit that the one who knows the most about ACS and who can operate it best is not one but all of the following:

1. ACS civilian personnel.
2. Alaska's commercial operating telephone systems.
3. Alaska telephone systems of military agencies.
4. Major Connecting Companies: AT&T and Western Union.

All of these, in my opinion, should join together to own and operate the ACS to provide the strongest and most reliable and most progressive Long Distance service possible.

Sale to a consortium of all interested parties eliminates most of the tensions between the operating companies and the Long Distance Carrier, the tensions between rival large companies, and the tensions between the Government and the Buyer.

Joint use of facilities useful to all is a usual economy in American industrial life. Railroads jointly own and operate terminal facilities. Oil companies jointly own and operate pipe lines. The Chicago gas pipelines from Kansas and Texas, the organization of which I personally observed almost forty years ago, was a joint enterprise by a number of separate interests. They are all the same. Separate companies each contribute small threads of themselves which they bind together in a cable stronger and more useful than the equivalent quantitatively in a single thread, and more interconnected to do a better job for everybody instead of a single owner.

VI. METHODS OF SALE

The traditional American method of ownership and operation of economic facilities is by corporation. The Alaska Communications Corporation should be incorporated in Alaska with a nominal capital by all the following:

1. ACS Civilian Department Heads and top personnel.
2. Representatives of Alaska's commercial Telephone Systems.
3. Representatives of Military telephone systems at Eilson, Elmendorf, Greely, etc.
4. Representatives of AT&T and Western Union.

Trustees should be elected by each of the four classes above in proportionate numbers to be decided, to manage the organization of the ACC, the acquisition of properties and financing thereof, the operation of the properties and the financing of improvements.

The Trustees should negotiate with the Air Force to determine the specific properties to be acquired by ACC. The original cost and proper depreciation and obsolescence reserves of these properties should be determined and submitted to the Alaska Public Service Commission in a regular proceeding for the determination of Book Value of the properties to be acquired, as specified by Alaska statute. Statutory Authority should be enacted by the Congress directing the sale of the properties to the Alaska Communication Corporation at the Book Value so determined by the Alaska Public Service Commission. An appropriation should be made in the Statute to cover the expense of the Alaska Public Service Commission in determining Book Value of the ACC properties.

VII. FINANCING THE SALE

Alaska Communication Corporation should pay the Government Book Value for the ACS properties acquired, in the form of 99 year Debentures subordinated to a restricted amount of mortgage bonds, with a sinking fund and interest rate dependent on future actual income of ACC.

VIII. FINANCING WORKING CAPITAL

The Working Capital necessary to operate a Public Utility with the present \$15 million annual gross of ACS, may be estimated at one eighth or around \$2 million. Proportionate rights should be given the four classes above to subscribe for \$2

million of the Capital Stock of ACC. An underwriter should be sought who will finance the purchase of this stock by the individuals and companies in the four classes over a period of one to five years in return for the privilege of acquiring the stock not paid for by members of the four classes above. Municipal telephone systems may sell their rights to subscribe to their own citizens.

IX. FINANCING IMPROVEMENTS

Perhaps \$5 million of improvements may be needed by ACC and this should be secured by \$5 million of first mortgage bonds senior to the subordinated Debentures issued to the Government in payment for the properties. While traditional commercial financing by either a public issue or by institutional sale may be preferable, General Telephone's, Stromberg Carlson's and IT&T's telephone equipment financing facilities should not be overlooked.

X. CONCLUSION

All Alaska: military as well as civilian can enjoy superior long distance telephone service at reasonable rates if the Congress will enact S. 2444 and H.R. 9691 amended according to the above suggestions. This is a package designed for everybody and should be attractive to everybody. Only this sort of thing can untie the present knot which is purely opposition to that unknown which might be worse.

Mr. GARRETT. I would like to pay tribute to the Alaska Communication System because it has not been done yet in this record. I want to testify as a public utility professional operator that I doubt any other company or any other agency would have done a better job on the whole than the Alaska Communication System has done, and Alaska should be grateful to the Signal Corps which pioneered the operation and to the Air Force, which has acted as an air cover in keeping it alive, and above all, to the permanent civilian personnel of the ACS who have adroitly and stubbornly and gallantly held the ACS to commercial standards in spite of the Pentagon's basic lack of aptitude in the telephone business, and in spite of the telephone industry's impatience and lack of understanding of the difficulties inherent in the ACS position.

Disposal of the main portion of the ACS should be by sale. Lease, or contract operation is generally a short-term, short sighted, cheapie method of doing a long-distance telephone job whereas the sound development of Alaska requires the sound, careful, long-term planned development of communication facilities which only intelligent ownership has demonstrated to be economic.

Sale should not be to highest bidder.

Traditional Government policy has favored sale of Government property to the highest bidder on the theory that the man who pays the most will do the most with it. This is sound business when applied to the sale of iron and shoes and other commodities. It is not sound business when applied to a public utility.

I am sorry, Mr. Chairman, to disagree with the even tenor of this committee's will this morning. I do not think that you can put the ACS up to the highest bidder and expect to have the slightest bit of an idea as to what the rates and the service will be, and I would like to refer you to the experience of the country and to the experience of the Congress with respect to the public utilities some 30 or 40 years ago when you enacted the public utility holding bill. Now the big crime there, and the economics, was that the individual public utilities were bidding up, were bidders for particular public utility properties, and the result of that was that they paid inflated prices, they

had to pay inflated rates, the ratepayers did, and they had to go to all sorts of financial expediences, such as the holding company, in order to make up for the sin of bidding up for different properties. I would like to remind you in this hearing that this same thing can be done if you put the ACS up for sale to the highest bidder.

The question then is: Who ought to buy ACS? And the economic answer is; the one or ones who know the most about it and who can operate it best.

I submit that the one who knows the most about ACS and who can operate it best is not one but all of the following:

The first is the Cinderella in these proceedings, the ACS civilian personnel which are not appearing, they are not here. If I were in a commercial enterprise and intended to take over something like this, the first people I would go to and ask about would be the people who are running it. They are good people. They are honest people. They have devoted a great deal of their lives to working this thing out.

The second of course are the operating telephone companies that you have asked to appear. The third are the military agencies telephone systems which I am sure down on the lower level are familiar with these problems directly.

The fourth are the major connecting companies, A.T. & T. and Western Union.

All of these, in my opinion, should join together to own and operate the ACS to provide the strongest and most reliable and most progressive long distance service possible.

Sale to a consortium of all interested parties eliminates most of the tensions between the operating companies and the long distance carrier, the tensions between rival large companies, and the tensions between a single buyer and the Government, egged on by the single buyer's competitors.

Joint use of facilities useful to all is a usual economy in American industrial life. Railroads jointly own and operate terminal facilities. Oil companies jointly own and operate pipelines. The Chicago gas pipeline from Kansas and Texas, the organization of which I personally observed almost 40 years ago, was a joint enterprise by a number of separate interests.

Now I would like to refer to the Communications Satellite Corp. which has been before us. You will remember that half of that is a consortium made up of the operating facilities. The traditional American method of operation of the economic facilities is by a corporation, and I would suggest a new corporation, the Alaska Communications Corp., be incorporated with a nominal capital by the ACS civilian department heads and top personnel, representatives of Alaska's commercial telephone systems, representatives of military telephone systems at Eielson, Elmendorf, and Greeley, and so forth, and representatives of A.T. & T. and Western Union.

Trustees should be elected to each of these four classes and proportionate numbers decide to manage the organization of the Alaska Communications Corp., securing a certificate of convenience and necessity from the State of Alaska, the acquisition of properties and financing of them and the operation of the properties and the financing of improvements.

The trustees should negotiate with the Air Force to determine the specific properties to be acquired, and the original cost and proper

depreciation and obsolescence reserves of these properties should be determined and submitted to the Alaska Service Commission in a regular proceeding for the determination of book values of properties to be acquired as specified by the Alaska statutes.

An appropriation should be made in the statute to cover the expense of the Alaska Public Service Commission in determining the book value of the corporation properties. Now any other organization would have to put up the money for it, and it seems to me in this case the Government should do the same.

The corporation should pay the Government book value for the properties acquired, and I would suggest, and of course this is subject to 110 different variations, 99 year debentures subordinated to a restricted amount of mortgage bonds, with a sinking fund and interest rate dependent on future actual income of the corporation.

The working capital necessary to operate a public utility with the present \$15 million annual gross may be estimated at one-eighth or around \$2 million. Proportionate rights should be given the four classes above to subscribe for \$2 million of the capital stock. An underwriter might finance this purchase in return for the privilege of acquiring the stock not paid for by members of the four classes.

As a variation, municipal telephone systems might sell their rights to subscribe to their own citizens.

Perhaps \$5 million of improvements may be needed by the corporation, and this should be secured by \$5 million of first mortgage bonds senior to the subordinated debentures issued to the Government in payment for the properties.

While traditional commercial financing by either a public issue or by institutional sale may be preferable, General Telephone's, Stromberg Carlson's, and International Telephone's telephone equipment financing facilities should not be overlooked.

Mr. Chairman, I submit that this is the only way that you can have the benefit of the entire engineering successes of the different companies in the telephone field, by bringing them all together, and if you do that and put it in a consortium so that you do not have the privilege or you do not give someone else the privilege of saying you are giving it away, when you sell it to a consortium it is not giving it away to anybody, I say when you do that, then you can protect the rates and you can protect the service, and by bringing them all in together, you can upgrade that service materially.

Not only that, Mr. Chairman. I submit that this sort of a thing is cheaper for the participants in the situation. That whoever the successful bidder might be—and I do not know, I have an idea who he might be—but whoever it is, he can get it cheaper, he can provide a great deal more service, and he can have the help of other people in the industry, and not have a great deal of the harm which he would have to put up with if he did not have them along with him.

Senator STENNIS. Well, you have given a very good statement. Have you discussed this part of it, the financing and the consortium, as you call it, with the Air Force?

Mr. GARRETT. No, sir, I have not. This matter has been on higher levels. It has not percolated down to the operating situation. We have not been able to find out the whole thing. It has been a chain of command, and the chain of command peters out by the time it gets down to me.

Senator STENNIS. You say "our company." You mean the Alaska Power & Telephone Co?

Mr. GARRETT. Yes, sir.

Senator STENNIS. What areas of Alaska do you operate in?

Mr. GARRETT. We start up in the northern part up on the Alaska Highway a couple of hundred miles from Fairbanks, where it gets to be 100 in the summer and 70 below in the winter. We operate in Skagway about 400 miles south of that, at the head of the inside passage from Seattle to Alaska, and we also operate down in the southern part of Prince of Wales Island where they have roses almost up to Christmas. It is a large area. It is a diversified area. We are able to, we think, do a job at good rates and with good service.

Senator STENNIS. Is your company privately owned?

Mr. GARRETT. My associates and I do. I have a large block of stock.

Senator STENNIS. I asked if it is privately owned.

Mr. GARRETT. Yes, sir.

Senator STENNIS. How many miles is it from one end of your system to the other?

Mr. GARRETT. I should say around 900. The Senators traverse it more regularly than I do.

Senator BARTLETT. I accept that figure.

Senator STENNIS. You have power and telephone?

Mr. GARRETT. Power and telephone. Actually we have to have them both. It is the most efficient way of utilizing a single pole line.

Senator STENNIS. Do you have a public utility commission that regulates your rates?

Mr. GARRETT. Yes, sir. We have just filed our rates and tried to eliminate discrimination for the benefit of the new commission which is working things out.

Senator STENNIS. Senator, do you have some questions?

Senator BARTLETT. I have no questions, Mr. Chairman, but I am glad you gave me this opportunity so that I might remark that Mr. Garrett has certainly given us some new suggestions—

Senator STENNIS. Yes.

Senator BARTLETT (continuing). For pondering, and I want to say to you, because I have known him so long, that he is a man with very progressive business ideas and he has been helpful and constructive and has been on the Alaska scene for a long time.

Mr. GARRETT. Thank you, sir.

Senator STENNIS. That is fine. Your recommendations might apply more to the administrative department of the Government here than it would to the legislative. I think you have got a lot of strong points here, but to just mandatorily write it into the act that it shall be done this way and no other, I do not know that we should do that.

Mr. GARRETT. The communications satellite law spelled it out pretty clearly.

Senator STENNIS. Yes; I know. You took me out into space now. You have a very good paper here.

Do you have some questions, Mr. Kendall?

Mr. KENDALL. Mr. Chairman, I do have one question. It is not my understanding that the Air Force ever intended to make the highest and best bid from a money standpoint the sole criterion for the disposal of the property. Is it your information that they do so intend?

Mr. GARRETT. Mr. Kendall, the problem is in writing a law that will do anything more than sound good, because in a year or 2 years from now—I would like to just call to mind, to answer that question, what Tom Pendergast, who was the boss of Kansas City, told a group of my father's friends. He happened to be in the good government business there. He said:

You can write any sort of a law you wish. You can have a council form, you can have a commission form, a mayor form, but you know who is going to run it after that is written? I am.

Now a corporation will not tell you that, but any way you write it, they are going to run it if they buy it.

Mr. KENDALL. Do you not have to leave some degree of flexibility and discretion to the agency in an act of this kind?

Mr. GARRETT. In this particular case, if the agency could run it, they could say how to sell it. I do not think they can run it, and I do not think they can tell you how to sell it.

Mr. KENDALL. Thank you very much.

Senator STENNIS. All right, you have made a good witness. You almost persuade me that this would be a mighty good thing to buy stock in if you were going to run it.

Mr. GARRETT. Thank you, sir. I might say, sir, that my boss, when I was with Cities Service Co. appeared before Sam Rayburn on the holding company bill, and he told Mr. Rayburn, and Mr. Sam told my boss the same thing, and I want to thank you very much, sir.

Senator STENNIS. All right, the next witness, Mr. Counsel.

Mr. KENDALL. Mr. Altepeter.

Senator STENNIS. Come right around and have a seat. We are glad to have you here today. You are the chief engineer of Continental Telephone Corp.; is that correct?

STATEMENT OF HENRY M. ALTEPETER, CHIEF ENGINEER, CONTINENTAL TELEPHONE CORP.

Mr. ALTEPETER. That is correct, Senator.

Senator STENNIS. One question before you start. The different cities in Alaska are represented by different power groups, I suppose. We have just heard here from Mr. Garrett, but there are several different power companies, I presume, I meant to ask that of Mr. Garrett. I suppose that is correct, is it not?

Mr. ALTEPETER. We are in the telephone business, Senator.

Senator STENNIS. Yes, but you know what the situation is in power.

Mr. ALTEPETER. Yes; that is correct.

Senator STENNIS. It is all right if you are not prepared to answer. Where do you live?

Mr. ALTEPETER. I live in St. Louis, Mo.

Senator STENNIS. You appear here as chief engineer, I see.

Mr. ALTEPETER. Yes, sir.

Senator STENNIS. Excuse me, I thought you were from Alaska. You appear for the Continental Corp.

Mr. ALTEPETER. That is correct.

Senator STENNIS. Just what is the interests of your company, Mr. Altepeter?

Mr. ALTEPETER. Well, the interest of our company is that it is expanding its facilities throughout the whole United States.

Senator STENNIS. I see.

Mr. ALTEPETER. It is now the fourth largest independent company, and we already have interests in Alaska.

Senator STENNIS. That is fine. All right, you have a prepared statement, sir?

Mr. ALTEPETER. Yes, sir; I have.

Senator STENNIS. All right. If you will just put it in the record and then summarize it and give such additional points as you may wish, and then we will have some questions.

(Mr. Altepeter's prepared statement follows:)

TESTIMONY OF HENRY M. ALTEPETER

My name is Henry M. Altepeter of 143 Frontenac Forest, St. Louis 31, Missouri. I am the Chief Engineer of the Continental Telephone Corporation, a holding company, with subsidiaries operating over 580,000 telephones in 35 states. Continental, for some time, has managed, and has plans to acquire the Trans-Alaska Telephone Company, which serves Kodiak, Kenai and 8 other communities in the State of Alaska with telephone service.

Continental is the fourth largest independent telephone company in the United States. In its current long distance telephone service it owns and employs facilities which physically exceed those owned by the Alaska Communication System, and the business handled over these facilities likewise exceeds that of the Alaska Communication System as to message volume. Continental also is providing other communication services including Teletypewriter, Mobile Telephone, Data and Community Antenna Television. It also furnishes the United States Government with facilities and services which include SAGE, NIKE and AUTO-VON.

I have been in the telephone and communication business for over 40 years in various capacities and am familiar with the technical, managerial, and economic aspects of providing both local and long distance telephone and other communication facilities and services to both large and small communities.

I have examined very carefully the system now used to provide telephone and other communication services to the citizens of Alaska in the light of adequacy, expandability, and have compared it to the facilities used and the services rendered within the other 49 states. I am not critical of what has been done or is being done by the military. I believe they have done remarkably well under the circumstances under which they have operated. However, Alaska communications needs have grown to a point where the job of providing them needs to be turned over to private enterprise specializing in communication services and which can and will devote all of its time, energy, and resources to the problem.

There is pending before the Congress, a bill—S. 2444—to authorize the sale or disposition of the Alaska Communication System by the United States to others who will operate and expand this facility as a public utility.

The military operators of the A.C.S. have made available to interested parties, data pertinent thereto.

Based on my examination of the Alaska Communication System and on my experience in the business. I respectfully urge this Committee and the Senate to give favorable consideration and approval to the measure before it for the following reasons:

1. The people of the State of Alaska should have long distance telephone and other communication services rendered under the same general mode of operation as do the people in the remaining states. By this I mean by a qualified common carrier under the regulation of the proper state body as to intrastate business, and by the Federal Communications Commission as to interstate business.

2. The existing facilities have, in general, been limited to what the Congressional appropriations have allowed for, and at present they are inadequate and out of step with the modern and more adequate facilities available in other states. Presently there is no direct distance dialing and there are apparent shortages of switchboard positions and circuits to handle the offered traffic.

3. The facilities which should be dedicated to public use for communication purposes are, in many cases, so integrated with other military or defense facilities as to make it difficult or impracticable to allocate the expense of operation or of investment. Examples are the sharing of buildings, power plant and defense circuits, such as White Alice, BMEWS. All of this, in all probability, also requires making a choice as to which facility has priority or is of primary importance.

4. The existing system is manned in part by military personnel. A commercial operator would provide skilled civilian help which would be oriented toward continued employment, identification with the business and the local community.

5. Ownership of the facilities by a common carrier would result in a large amount of utility property being added to the tax rolls of the state and local communities with obvious benefits not presently enjoyed.

6. Ownership and operation of the business by a common carrier would bring along the sharing in technical development, new types of services, the introduction of improved managerial techniques, and the capability of financing expansion and improvements.

7. The management and administration of the existing facilities and services are presently carried out at Seattle, a point which is indeed quite distant from Alaska. Operation by private enterprise would, no doubt, cause this to be shifted to Alaska and would of itself tend to improve the efficiency of this operation.

8. The rendering of adequate communication service to the people of the State of Alaska is a formidable undertaking due to the great areas to be served, the small number of customers to be served at many communities, and the vast distance involved.

To do this within the framework of reasonable rates and economic stability will require application of the best experience, operating methods, innovations, resourcefulness and vision that can be mustered. I believe that a qualified common carrier will logically be the best source for this capability.

MR. ALTEPETER. All right, sir. I think my statement indicates that I have been in the telephone business for over 40 years and because of my familiarity with the communications business and the checks and studies that I have made of the Alaska Communications System, I am in favor of the bill as it is written.

I might add that in addition to the statements that I have in my testimony there have been several points raised by both this committee and also by some of the witnesses which I would like to comment about.

There has been, properly so, a concern here for rates, and I believe that the bill as written indicates that the sale of this property is to be made to a common carrier that is going to be under the jurisdiction of the Federal Communications Commission insofar as interstate rates is concerned, and under the jurisdiction of the Alaska government as far as intrastate rates are concerned, and furthermore the bill has built into it a 1-year guarantee that there will be no change in rates.

I believe that it would be erroneous to add anything in this bill which would legislate rates for Alaska. I think the rates for Alaska should be determined by the proper authorities.

The next thing has been concern for the military capabilities in Alaska, should this part of the communications system be sold or turned over to private enterprise. I would believe that the record shows, and I think the military will support the statement, that the private communications industry has been very responsive to all of the military needs whenever they arose, regardless of whether they were regular or of an emergency nature, and I am sure that this same situation will continue if this were to take place in Alaska.

Another factor that has been mentioned here is that there should be a preliminary study made as to just what the rates will be if a

part of the Alaska Communications System is sold, and if it is operated by some other carrier besides the ACS. I think that this would be an involved situation, because the military accounting for the property revenues and expenses is in accordance with the Government prescription which differs from that which is used by regulated common carriers. We use what is known as the uniform system of accounts, and it would be very difficult to restate the financial experience of the ACS in terms that would be meaningful, and I would say that very few of the interested parties would be able to make a study of that kind, unless they knew beforehand what part of the system they were actually going to buy or operate.

The other thing that has been mentioned here is that perhaps a separate corporation should be formed, and if we were going into outer space, as the Senator mentioned here, this might be appropriate. But Alaska is one of the 50 States, and I see no reason why operations that have been successful and have produced reasonable rates, good service, and ever-expanding capability as far as communication is concerned, would not be applicable to the problem in Alaska. Why would we want to treat it differently? I think the people of Alaska are seeking the same status as those of the other 49 States, and I think we should do everything possible to make that available to them.

This is what I have to say.

Senator STENNIS. Are there any questions, gentlemen?

Senator SYMINGTON. I would just like to observe I am glad to see that Mr. Altepeter has picked one of the finest cities in the country to live in, Mr. Chairman.

Mr. ALTEPETER. Well, thank you.

Senator STENNIS. It has fine engineers, excellent Senators, and sometimes a good baseball team.

Senator BARTLETT. I would like to ask a question. I think you ought to dedicate most of your remarks to Senator Symington, but I noticed at one point in this statement you said a commercial operator would provide skilled civilian help, which would be oriented toward continued employment.

Mr. ALTEPETER. Yes, sir.

Senator BARTLETT. And I inferred this was to be in line—is in line with what Mr. Perry said earlier, that interest has been expressed by those companies concerned with keeping as many people now employed by the ACS civilians as possible, and I would want to join with Mr. Garrett in his praise of their capability. This would be your intention?

Mr. ALTEPETER. That is correct, sir. What we imply here is that the communication business in the United States—and we would hope to continue that in Alaska—we like to keep the people that are skilled, qualified, and who want to stay in that business.

Senator BARTLETT. Now as has been testified here—and as a matter of fact testimony on the point did not have to be given because we can turn to any telephone book and see the long-distance rates to and from Alaska. If you were to project speculatively—

Senator STENNIS. Would you excuse us just a minute? We have an emergency. Will you continue with the hearings?

Senator BARTLETT. All right.

Senator STENNIS. I want to say here, if I may interrupt further, that we want for this record, gentlemen, not a complete list of all the

rates, but the major rates that apply to the people, both telephone and telegraph, and then some kind of a prospectus as to what rates you would expect under this bill.

Mr. Perry, I direct this to you, but it may also be supplied by anyone else that wants to take a cut at it.

We will be back shortly.

Senator BARTLETT (now presiding). If you were to project speculatively what the future might hold, do you believe a commercial carrier could lower the rates?

Mr. ALTEPETER. Well, Senator, let me say this. That is sort of like bidding on a specification that you have not read yet, but in looking at the rates that exist in Alaska, undoubtedly they have been tailored to a situation as it exists today. We know that things are costing more in Alaska relatively than they do in the United States. One thing that ACS does not do in Alaska is it does not pay any taxes. You would expect a commercial company to pay taxes.

Senator BARTLETT. We would look forward to that; yes.

Mr. ALTEPETER. I appreciate that. So therefore when you ask me to speculate on the possibility of reducing rates, let me say this. That certainly the FCC and the Alaska Commission both I am sure would regulate them to where a reasonable rate of return would ensue. In looking at the rates that exist today, I would say that some of them are probably higher than they need be. Now let me conclude it at that point.

Senator BARTLETT. You informed the committee that Continental is managing and intends to purchase the Trans-Alaska Telephone Co., which serves two larger communities, Kodiak and Kenai, and eight others. Now if you were to acquire the entire ACS commercial system and you were able to lower rates, of course that would increase business mightily for the Trans-Alaska Co., too, would it not?

Mr. ALTEPETER. Well, let me say this, that when you look at the overall needs of the communications system in Alaska, this is not being satisfied by ACS today. If it were, there would not be this desire for a change, I do not think. So we have a number of complications here. It is not only the price of the service, but it is the adequacy of the service. Much of the equipment which is in use today, if it is compared with what is needed, is going to be obsolete, not necessarily because it does not work but because it is not adequate. And it would have to be replaced. The cost of service is going to have to be geared to a number of things. The more service is demanded, why the more circuits you can put in, I guess the cheaper you can put them in. This is the experience in the continental United States.

But I would say this. That as you went along and you developed the other instrumentalities of communication, such as telephone wire, private line, data systems and so on, it may well prove that you could lower rates as far as message service is concerned.

Senator BARTLETT. My wife and I had a call Saturday afternoon from a friend in Fairbanks, and she opened the conversation by saying "Listen carefully. This is costing me a lot of money," and she talked so fast we never were clear as to what she said.

I have no further questions.

Mr. KENDALL. One or two questions if I may, Senator.

I take it from what you say that you believe that Alaska has sufficient commercial feasibility and growth potential to make private acquisition of these facilities attractive, is that right?

Mr. ALTEPETER. That is correct.

Mr. KENDALL. And your company would be interested in participating in the bidding or the negotiations for the purchase, if it is authorized.

Mr. ALTEPETER. Unless it were authorized?

Mr. KENDALL. I say if it is authorized.

Mr. ALTEPETER. If it is authorized; yes, we would be.

Mr. KENDALL. You made a reference to your opposition to rates being legislated. I do not think that that is the proposal. As I understand it, the rate schedules would be proposed by the bidders at the time they submit their bids as an integral part of their bids.

Mr. ALTEPETER. Well, actually the bill as it is written today, Mr. Kendall, provides that the rates not be increased for a period of 1 year; unless there has been approval by a Government body, it shall not be changed.

Mr. KENDALL. That does not contemplate that Congress would fix or determine the rates.

Mr. ALTEPETER. This is what I was trying to avoid was that people have been trying to get into the bill some prescription as to what the rates are going to be. I do not think you can do that very well.

Mr. KENDALL. I would be inclined to agree with you, sir.

Mr. ALTEPETER. This is correct.

Mr. KENDALL. I would hope that we would not be expected to do that.

Mr. ALTEPETER. No; I do not expect you to do it. In fact I would be opposed to it.

Senator BARTLETT. I look forward to the time when a telephone call from Barrow to Miami, Fla., would cost 25 cents, but I do not suspect that will happen.

Mr. ALTEPETER. Not unless you lower taxes considerably.

Mr. KENDALL. That is all I have, Senator.

Senator BARTLETT. Thank you, sir.

Mr. KENDALL. Mr. W. R. Jarmon, vice president of the General Telephone & Electronics Corp.

Senator BARTLETT. Mr. Jarmon, at the outset I want to congratulate you upon a presentation of the map, which certainly is helpful to the committee, and of the photographs, and I am sure the other material which will be equally helpful.

STATEMENT OF W. R. JARMON, VICE PRESIDENT, GENERAL TELEPHONE & ELECTRONICS CORP., ACCOMPANIED BY D. F. PISKE, GOVERNMENT SERVICES PLANNING ENGINEER, GENERAL TELEPHONE & ELECTRONICS CORP.; AND C. J. McLEAN, GOVERNMENT COMMUNICATIONS DIRECTOR

Mr. JARMON. Yes. I thank you for that expression.

Senator BARTLETT. Do you have a prepared statement?

Mr. JARMON. I do have a statement.

Senator BARTLETT. Do you care to have that incorporated in the record and then summarize it perhaps?

Mr. JARMON. Yes. I have prepared my statement in summary form, realizing that this committee would prefer to conserve time, and if it is satisfactory, I will go through it as rapidly as I can.

Senator BARTLETT. All right, you do that.

Mr. JARMON. In connection with that, we do have a larger map here, and I have asked Mr. McLean to turn that map and to point out items as I refer to them in my statement.

I am pleased to submit this statement as a vice president of General Telephone & Electronics Corp. (G.T. & E.) concerning S. 2444, the bill to authorize the disposal of the Government-owned, long-lines communications facilities in the State of Alaska.

Before proceeding with my statement, I would like to provide the subcommittee with a brief description of my background and experience. I was graduated from Oregon State College in June 1929 with a bachelor of science degree in electrical engineering and immediately thereafter became employed by the Pacific Telephone & Telegraph Co. in Portland, Oreg., where I handled various assignments in the plant, commercial, and engineering departments.

I received a masters degree from the Graduate School of Business Administration at Stanford University in June 1937, having been given a leave of absence by Pacific Telephone to pursue graduate studies, and left Pacific Telephone in August 1937 to join the staff of what is now the Public Utilities Commission of the State of California. I served with the California commission in various staff capacities in the regulation of telephone and telegraph companies until May 1941 when I went on military leave.

During my 5 years of active duty with the U.S. Army, I rose in rank from first lieutenant to lieutenant colonel and served in the Signal Corps as a communications officer with responsibility for installation, operation, and maintenance of communications services both in this country and abroad. My military service included three tours of duty with the Alaska Communication System.

After separation from active military service in June 1946, I resigned from the California commission to accept employment with the Federal Communications Commission. From 1946 to 1950 I was Chief of the Rates Branch in the Engineering Department of the FCC, with responsibility for staff activity in the regulation of domestic and international telephone and telegraph companies.

I was promoted in 1950 to Chief of the Services and Facilities Branch in the Telephone Division, in which position I directed the staff activities of regulatory matters relating to telephone rates, services, facilities, and operations.

I resigned from the FCC in February 1951 to accept employment with the General System. On October 1 of that year, I was elected president of General Telephone Co. of the Northwest, and was elected to my present position in May 1958.

I would like to give just a brief background of the family of companies within the General System, to indicate some of our capabilities.

Background of G.T. & E. and its family of companies: G.T. & E. is a worldwide communications and manufacturing enterprise whose highly diversified operations throughout the United States and abroad are known as the General System.

G.T. & E. has more than 30 telephone operating subsidiaries which serve over 6,500,000 telephones in some 7,500 communities in 33 States, including Alaska. Two of our international subsidiaries serve more than 750,000 telephones, principally in British Columbia. In addition to telephone service, the General service provides a wide range of other communications services, including teletypewriter communications, data transmission, transmission of radio and television programs, and operation of various military communications facilities.

The largest manufacturing subsidiary of G.T. & E. is Sylvania Electric Products, Inc., which produces a wide range of electronic systems and equipment for defense and aerospace application and ranks among the first three domestic producers of electronic tubes and lighting products. Sylvania's defense and aerospace business, which amounts to about 20 percent of the General System's total manufacturing sales, includes such major programs as communications, ground control, and electronic security systems for missile-launching sites; development work on missile defense systems; and development and production of electronic-detection equipment. The most significant of these programs is the command and control system for the Minuteman missile complex.

Automatic Electric Co. is the largest producer of communications equipment for the independent telephone industry and a major producer of industrial control equipment. Automatic Electric is the supplier of electronic switching equipment for overseas Autovon, the worldwide network for the Department of Defense. Lenkurt Electric Co., Inc., a subsidiary of Automatic Electric, is a leading producer of microwave radio, multiplexing, and data transmission systems.

General Telephone & Electronics International, Inc., has responsibility for all General System manufacturing and marketing outside the United States, including a large variety of communications, electronic, and electrical products. Manufacturing subsidiaries operate a total of 8 plants in Canada and plants in 12 countries in Europe, Latin America, and the Far East. In addition, associated manufacturing companies are located in four countries.

In scientific research and development, more than 6,000 scientist and engineers in General Telephone & Electronics Laboratories, Inc., and the applied research and engineering laboratories of the General System manufacturing companies, are engaged in a wide variety of basic research and advanced development projects. In 1965, technical research and development activities undertaken by the General System totaled more than \$144 million. Of this amount, \$107 million represented research and development projects for the armed services and Government agencies.

As of December 31, 1965, General System employment totaled 122,000. The total gross investment in plant and equipment was nearly \$3.8 billion, and revenues and sales totaled more than \$2 billion in 1965.

Communications services provided in the State of Alaska: General Telephone Co. of Alaska (GenTel Alaska), a wholly owned subsidiary of G.T. & E., began operations in 1959 and presently serves more than 3,300 telephones in Annette, Barrow, Bethel, Haines, Hyder, Metlakatla Village, McGarth, Moose Pass, Nome, Petersburg, Seward, Wrangell, and Unalakleet. All of the exchanges are dial operated except Hyder, which serves only 16 telephones.

There has been steady growth in our Alaska telephone operations with the number of telephones served increasing from about 1,500 in 1959 to over 3,300 at present. During this same time period, our plant investment has increased from about \$360,000 to nearly \$3,200,000.

The property of GenTel Alaska consists largely of automatic switching equipment, land and buildings, telephone instruments, and outside plant facilities. Included in this property is a tropospheric scatter radio system constructed to the same specifications as the U.S. Air Force White Alice Communications System (White Alice), with which it interconnects via a high-capacity microwave system.

We believe that our background and experience of providing communications services in the State of Alaska, as well as 32 other States and 4 foreign countries, eminently qualifies the General System as a total communications organization. As a result of these widespread operations, we have established practices and procedures for providing communications services under varying conditions. The General System represents a large source of skilled communications personnel which could be readily utilized in expanded operations in Alaska.

Basis of G.T. & E.'s interest in Alaska Communication System: Upon receipt of the brochure published by the U.S. Air Force describing the Alaska Communication System (ACS), G.T. & E. organized a task force of experienced telephone operating personnel to make a preliminary study of ACS. Mr. Piske, who is sitting on my right, headed that task force. This study included visits to the headquarters of ACS in Seattle, Wash.; the four ACS toll operating centers at Anchorage, Fairbanks, Juneau, and Ketchikan; and the headquarters of the Alaska communication region at Elmendorf Air Force Base, Alaska.

As a result of this study, as well as the knowledge accumulated over the years by GenTel Alaska through its operations in Alaska, G.T. & E. is interested in acquiring additional communication facilities in Alaska in order to expand the General System operations in that State.

If the disposal of Government-owned communication facilities in Alaska is authorized by enactment of S. 2444, it is our present intention to submit a formal proposal for the purchase of the ACS facilities, including the following major installations:

(a) Toll switchboards at Fairbanks, Anchorage, Juneau, and Ketchikan;

(b) Submarine cable between Ketchikan, Juneau, and Skagway; and

(c) The open-wire pole line from the Alaska-Yukon border to Tok Junction and branching from there to Fairbanks and Anchorage with a spur to Valdez.

In this formal proposal, G.T. & E. also intends to state its interest either in purchasing or leasing portions of White Alice. The reason for this interest is that the toll lines which are a part of ACS are paralleled by portions of White Alice, and these parallel routes of White Alice are utilized to provide the majority of channel miles used by ACS in the provision of commercial longlines communications.

Our preliminary study indicates that the more modern White Alice facilities are capable of being economically expanded to meet the growing commercial communications needs of Alaska. Since the

ACS open-wire pole lines have limited capacity and are incapable of meeting all technical requirements of modern communications, the continued use and expansion of certain portions of White Alice would be essential for the most economical development of a commercial longlines communications system in Alaska.

Other portions of White Alice which do not parallel ACS routes and other Government communication systems (such as the point-to-point radio systems of the Federal Aviation Agency and the open-wire and microwave facilities of the Alaska Railroad) are an integral part of the commercial communications network in Alaska. Accordingly, our formal proposal would reflect an interest in the purchase or lease of portions of such facilities.

In the event that any of the Government-owned communication facilities in Alaska become part of the General System, we would offer all of the communications services now furnished and introduce from time to time such new communications services as are in the public interest, such as direct distance dialing, telex or TWX, and after, our rates.

The General System is very familiar with the problems of providing telephone service to remote locations and to marine stations. Through British Columbia Telephone Co., the second largest telephone operating company in the General System and serving over 725,000 telephones in British Columbia, we have gained substantial experience in providing "bush phone" service to approximately 1,100 locations in remote areas of British Columbia, which incidentally is very similar to Alaska geographically, and also to approximately 4,300 ships registered with General System companies which ply the coastal waters of British Columbia and Alaska. This experience would be applied to the modernization of both "bush phone" and marine radio telephone service in Alaska.

For example, our experience in serving other remote locations in terrain similar to Alaska has shown that significant improvement in transmission quality can be gained by replacement of existing radio telephone equipment with newer equipment employing the single side-band mode of operation. Additional ways in which substantial improvements could be made are in the conversion of the subscriber terminals to selective operation and the upgrading of radio transmitters to VHF operation where technically feasible. Also, with the large number of aircraft in Alaska, it would appear that there is a considerable market for air-to-ground radio telephone service, which would be in the public interest to develop.

CONCLUSION

In conclusion, we support the provisions of S. 2444 which would authorize the disposal of Government-owned communication facilities in Alaska, including the Alaska Communication System, that are not needed for purposes of national defense. We respectfully submit that the enactment of this bill will be in the public interest of the people in the State of Alaska and throughout the United States.

I appreciate very much this opportunity to make such a submission. Senator STENNIS. Mr. Jarmon, your statement certainly has added to the picture of the situation in this fine State and vast area. I judge

from your paper here that you gentlemen would really be interested in making a substantial survey and bid or negotiate on the disposition of the property.

Mr. JARMON. We definitely would. What study we have made already has been preliminary.

Senator STENNIS. Yes.

Mr. JARMON. It is based on very fragmentary information. But we certainly would be most anxious to make a thorough study at the appropriate time.

Senator STENNIS. Do you think this bill is complete in its present form? I will state it another way. Do you see any deficiency in the bill that would prove to be an obstacle in carrying out the plan envisioned by the bill?

Mr. JARMON. No, we do not. We think as it stands it is adequate. We believe that the Department of Defense needs such a permissive piece of legislation.

Senator STENNIS. And your company, with its vast resources, human, financial, and otherwise, would really be interested in undertaking and acquiring certain rights under the bill?

Mr. JARMON. We have already invested slightly over \$3 million in Alaska. We expect growth in Alaska. We think it is going to be one of our great States.

I can remember back when the State of Washington had substantially less development than it has now, and to undertake the operation of a toll business in that State in the early days would have been a problem perhaps somewhat similar to what you have here now.

I think the Alaska communications since 1900 has done a tremendous job in carrying long-distance service to that remote area, and in meeting a lot of the requirements. Incidentally, our working with the Alaska communications since we have been active in Alaska, through our General Telephone Co. of Alaska, has indicated to us that ACS has done a fine job.

Senator STENNIS. Who is that?

Mr. JARMON. ACS, Alaska Communication System. However, their facilities need to be modernized. They haven't been able to keep up to date, rendering modern service.

Here in the balance of the States, including Hawaii, I think we have outdistanced them in bringing modern service to all areas, including remote areas. Goodness gracious, up in our neighboring country of Canada, we serve British Columbia. They likewise do have some highly concentrated areas, but they also have a lot of lean country, and we believe that the service to Alaska should be modernized. It is going to take time, but it definitely should be and we believe that this legislation, giving the Department of Defense an opportunity to move ahead, would certainly be in the public interest.

Senator STENNIS. One thing that will insure real development for all the systems is for someone to acquire them who has the capital and the know-how to move forward. I can see that—just as a layman.

Mr. JARMON. There are substantial risks. Looking down the road, we believe, No. 1, that the job can be done best by private enterprise. As far as the General System is concerned, we feel that we do have the financial backing and the resources to secure that.

Senator STENNIS. You say you are already operating in 33 States?

Mr. JARMON. Yes, including Alaska, 32 other States other than Alaska.

Senator STENNIS. Senator Bartlett, do you have some questions?

Senator BARTLETT. Where do you make your headquarters now, Mr. Jarmon?

Mr. JARMON. At New York City. That is where the General Telephones & Electronics Corp., 730 Third Avenue, in New York City.

Senator BARTLETT. General Telephone has a landline that leads into northern British Columbia?

Mr. JARMON. Yes, we do, the Trans-Canada Long Lines. We own the portion that is in British Columbia.

Senator BARTLETT. How far north does your line go?

Mr. JARMON. Could you show that, Mr. McLean, on the map.

Mr. McLEAN. At the moment, British Columbia Telephone Co. has a microwave system that terminates at Prince Ruppert, coming from Vancouver, and another that goes up to Dawson Creek, through British Columbia, and then there is an east-west microwave right along the border.

Senator BARTLETT. Do you go up as far as Dawson Creek?

Mr. McLEAN. Yes, sir.

Senator BARTLETT. Well, then, if you were to come into possession of the system, this would tie right in, would it not?

Mr. McLEAN. We presently have this tropospheric scatter system which was referred to earlier that GenTel Alaska provides in cooperation with the B.C. Telephone Co. to parallel this submarine cable.

Senator BARTLETT. You have that system and it is supplemented by the landline?

Mr. McLEAN. Yes.

Mr. JARMON. That is right.

Senator BARTLETT. Thank you very much.

Senator STENNIS. Mr. Kendall.

Mr. KENDALL. Thank you, Mr. Chairman.

Mr. Jarmon, in a letter dated May 25, General Telephone, along with other companies, was advised of the hearing, and one of the statements in the letter was:

"One of the areas we expect which will be given considerable attention during the congressional hearings is the level of rates and charges and proposed improvement quality of service to be provided in Alaska under private ownership."

You touched upon the question of improvements in your prepared statement, but you did not make any reference to the level of rates and charges. I wonder if you could give us the information upon what the policy and purposes of your company would be.

Mr. JARMON. Well, substantially along the same thing as the previous witness indicated.

Senator STENNIS. Speak up a little louder, please.

Mr. JARMON. For Continental, Mr. Ben Nolton, I believe is his name, just commented in regards to rates, both intrastate rates in the State of Alaska, and interstate, and the phone rates—first of all, intrastate rates within the State of Alaska would be under the jurisdiction of the Alaska Public Service Commission, Public Utilities Commission. The interstate and foreign traffic would be under the jurisdiction of the FCC.

Senator STENNIS. Excuse me, now, Mr. Jarmon. We are well along into these hearings and we know those fundamental things. The gentleman's question was what have you got to say about these rates?

Mr. JARMON. I think it is premature to judge what the level of rates would be. I think that is a matter that, once you know what the investment is going to be, and what the cost of rendering the service would be, I think then is the time to establish the level of rates.

Mr. KENDALL. Of course, I don't expect you to go into specific levels, Mr. Jarmon, but could you indicate whether you see a reduction in rates as a feasible matter?

Mr. JARMON. The trend and the situation generally has been downward, and ultimately, I would expect the rates to be lowered.

Senator STENNIS. Lowered?

Mr. JARMON. Lowered.

Senator BARTLETT. Mr. Chairman, on the same line of questioning, Mr. FitzGerald earlier made the suggestion that the company that is successful in obtaining this system would want to expand as rapidly as possible the number of long-distance calls, both in and out of Alaska, and accordingly might desire to institute promotional rates. Would you care to comment on that?

Mr. JARMON. Yes very definitely. Now the offering of additional services must be worked out with the other carriers in Alaska. The long-line facilities provide the long-distance portion of the overall services.

Offering of direct distance dialing as an example, will require working very closely with all of the other carriers, both that are owned by the cities and those that are owned by private corporations in Alaska. Those services will have to be worked out with all those carriers. I think very definitely the new service offering should be made and promotional services, certainly promotional long-distance rates.

Senator BARTLETT. You would rather have five calls at \$1 each, if one call followed the other, than two calls at \$2.50 each with a long interval between the two, would you not?

Mr. JARMON. We would like to make maximum use of the facilities that we have, and that goes along in the direction that you are speaking of.

Senator BARTLETT. You would be in there to make money under the regulatory authority of the two agencies?

Mr. JARMON. Yes, sir.

Senator STENNIS. And you do definitely expect the rates to be improved from the beginning, and then, as your volume expands, ordinarily they would be lowered; is that right?

Mr. JARMON. I cannot say to start with that the rates would be lower. I couldn't say that, because there is a lot of work to be done here, and we do not know what the price for the property would be at this time.

We don't know just exactly what Alaska Communications plans to sell. We just do not know what the facilities would be or what the cost of those facilities to the common carrier would be. So I would not want to state that there should be any reduction.

I think it might be a disservice to the public or to the users in Alaska if you are too hasty, because if you reduce rates and find that

the common carrier who is providing those services is not financially able to render good service to Alaska, you could do a great disservice to the State of Alaska.

Senator STENNIS. I can see where you shouldn't make a promise on anything like that. But, as I understood it, you said a minute ago you did expect them to be reduced from the beginning.

Mr. JARMON. Yes, I said that.

Senator STENNIS. All right; is there anything else, Mr. Kendall?

Mr. KENDALL. No, sir, Mr. Chairman.

Senator STENNIS. Do you have something to say, sir?

Mr. PISKE. No, sir.

Senator STENNIS. All right, then; thank you very much.

Mr. JARMON. Thank you.

Senator STENNIS. The next witness is Mr. Herbert H. Butler, secretary of U.S. Independent Telephone Association. Come around, Mr. Butler. I see you have a statement here. Do you wish to put that in the record and then give us the benefit of your special summary of it?

STATEMENT OF HERBERT H. BUTLER, SECRETARY, U.S. INDEPENDENT TELEPHONE ASSOCIATION

Mr. BUTLER. It is roughly 6 minutes long. If you don't mind, I would read portions of it, but if you have any questions, I will try to answer them.

Senator STENNIS. All right; proceed.

Mr. BUTLER. My name is Herbert H. Butler. I am secretary of the U.S. Independent Telephone Association (USITA), a trade association which represents the independent (non-Bell) segment of the telephone industry.

Our independent telephone companies provide local telephone service for the entire State of Alaska. The Alaska Communication System, subject of today's hearings, provides all the message toll and other long-distance services for the subscribers of these local telephone companies. The association, on behalf of its members, is concerned with the disposition of the Alaska Communication System.

The board of directors of USITA, which consists of 36 elected top executives of the industry, adopted the following resolution, which is a statement of its position on this subject:

On The Alaska Communication System:

Whereas, The telecommunications services to and from Alaska Communication System by the Department of Defense; and

Whereas, Local telephone companies in Alaska are unable to provide such services as TWX, Telex, DDD, reduced evening and night rates, and lack adequate toll circuits both intra- and interstate; and

Whereas, Communications to and from Alaska are handicapped by a toll rate schedule which is unrealistically high; and

Whereas, Alaska telephone companies receive settlement arrangements on toll handling which are unfavorable compared to the national practice; and

Whereas, the disposition of the Alaska Communication System in a manner to improve service, rates and settlements would be of great benefit to all telephone subscribers in Alaska and the United States; now, therefore, be it

Resolved, That the USITA wholeheartedly supports early hearings by Congressional Committees to pursue all facts; and be it further

Resolved, That the disposition of the Alaska Communication System be in such a manner as to place primary emphasis on service, rates and settlements.

Geography plays a great part in the telephone development of Alaska. The largest of our United States, some 586,000 square miles in area, has the smallest number of telephones, 59,000. There are 13 local telephone companies serving this great State with 48 "exchanges." The largest office, Anchorage, has over 26,000 telephones; the smallest but 6. Of the 48 "exchanges" only 7 or 8 have more than 1,000 telephones. In the category of the smallest are such as Angoon with 14 telephones, Girdwood with 14, Hyder with 9, Minilchik with 7, Pelican with 27, Portage with 6, and Willow with 9.

Toll (long distance) telephone service, both inter- and intra-state, has been furnished by the Alaska Communication System. Historically this service was ancillary to the communication needs of the Government. Rates and perhaps service have been established on the basis of Government budgets. There is no regulation of rates by the Federal Communications Commission. Alaska's toll usage is dependent upon rates and geography.

Today, according to your Washington telephone directory, it costs \$7.50 for a 3-minute call to Anchorage, Fairbanks, and Nome, and \$6.50 for a call to Juneau. The directory also states it costs \$7 to call Honolulu. Juneau is 2,800 miles from Washington, Honolulu 4,800. There is a night rate to Alaska of \$6 and \$5.50 and to Honolulu of \$4.75.

The current problem for our local telephone companies in Alaska centers around the fact that their net toll revenues are low, at least by standards set in other States. Net toll revenues of the local telephone companies are the result of settlements by the toll hauling agency (ACS), the usage, and the rates. With low toll revenues local telephone companies must recover a greater portion of their overall costs by higher local exchange rates. Alaskan local companies obtain about 11 percent of total revenues from tolls and 89 percent from local service. The U.S. average is 35 percent toll and 65 percent local.

Local exchange rates for the major Alaska companies run from \$10 to \$18 monthly for one-party business service, and from \$5.75 to \$11 for one-party residence service. Four-party residence service costs from \$4.30 to \$7.75 monthly and rural residence service from \$5 to \$9.25 monthly. These are relatively high rates when you consider the telephone calling area, i.e., the number of telephones reached without a toll call.

Geography and high local rates may be the reasons for certain characteristics of Alaska local telephone service. Of the 59,000 telephones, 43 percent are business which compare with 27 percent for the U.S. average. Telephones per 100 population are 23.4 which is the lowest of the 50 States. The average for the United States is 46.1. In short, there are more homes percentagewise in Alaska without telephone service than in any other State.

Two characteristics of residential telephone service in Alaska are a low one-party development and a low extension development. Multi-party is the dominant residential service. Approximately 89 percent of all residence service is party line.

The number of extension telephones in homes is likewise relatively low. The average for United States is one extension for five homes. In Alaska it is 1 extension for 12 homes.

Our association feels strongly that commercial telephone service should be furnished by communication common carriers, not the Government.

The sale of the Alaska Communication System would be a move of the Government getting out of the field of private enterprise. This is good.

But because we are dealing with an area, at least part of which requires the financial support and subsidization of service in more populous centers, the disposition of the system should be in such a manner as to be in the interests of good and reasonable telephone service for Alaskans. It would coincide with the purpose of the Communications Act of 1934 "to make available, so far as possible, to all the people of the United States a rapid efficient nationwide and worldwide wire and radio communications service with adequate facilities at reasonable charges."

The State of Hawaii, isolated like Alaska, and requiring great amounts of intrastate radio equipment, also like Alaska, is served by a thriving and aggressive independent telephone company. Service to and from the mainland is provided jointly by this independent company and the A.T. & T. Co. Hawaii fortunately does not have the area and population problem of Alaska. It has over 300,000 telephones and its telephone development is about the U.S. average. The telephone company there has a record of furnishing an improved service with decreasing long-distance rates. The revenues from toll are one-third of the total. The local rates are reasonable. Each island is a single local calling area. If Alaska continues its growth rate there is comfort in the example of Hawaii.

Strictly from the interests of the local Alaskan telephone companies and their subscribers, toll rates and service should be reasonable and should promote increased use. Settlements by the toll hauling company which may purchase the Alaska Communication System should be adequate and should tend to reduce the present high local exchange telephone rates. Reduced local rates would improve local service and in turn increase long-distance as well as local usage.

Any sale of ACS without concern for the interests of local telephone companies and local telephone subscribers would be unfortunate. We would hope that this committee in its report would make it clear that the primary benefits to be sought in the transfer of the Alaska Communication System from Government to common carrier operations will be the advantages which may flow to subscribers in service and rates, and not the amount of money which may be offered over and above purely "adequate consideration" for the facilities. With these considerations the association urges favorable action on S. 2444. We cannot help but feel that such a sale will result in long-range benefits to telephone customers in Alaska.

I appreciate the opportunity of appearing before your committee.
Senator STENNIS. Senator Bartlett.

Senator BARTLETT. Thank you, Mr. Chairman. I was interested, Mr. Butler, in the comparisons you made between rates to and from Alaska and Hawaii. I just went in the other room and brought back a telephone directory, and discovered that while it costs \$9 during the day to conduct a 3-minute telephone conversation to Fairbanks or Anchorage, for only \$3 more, or \$12 from Washington, D.C., you can

phone Argentina, Australia, the British Isles, Italy, Japan, and the Philippine Islands, which, of course, are much further removed from Washington than are the two Alaska cities I have named.

Mr. BUTLER. That is correct.

Senator BARTLETT. The rates are astronomically higher than to other points.

Mr. BUTLER. Although the distance to London, for example, is not any more than it is to Hawaii.

Senator BARTLETT. No, and that is why I couldn't understand why it cost just the same to London as to Australia.

Mr. BUTLER. Hawaii also has reduced evening and night rates, as you note in the directory there. You have reduced night rates for Alaska. You do not have reduced evening and night rates, and the night rate is lower—

Senator BARTLETT. For yours we have reduced station-to-station rates.

Mr. BUTLER. That is right.

Senator BARTLETT. To Alaska, but as has been noted heretofore, they are well offset by increased person-to-person calls, and it is a very hazardous thing to make a call up there without making it person-to-person. Otherwise, you are liable to waste a lot of money.

Mr. BUTLER. That is correct.

Senator BARTLETT. I guess that is true anywhere.

Thank you, Mr. Chairman.

Senator STENNIS. Thank you, Senator.

You make a statement on page 2—this is just for my information—that you have 13 of these local telephone companies operating. How many power companies, if you happen to know, do they have in Alaska? If you don't know, someone else might answer that question.

Mr. BUTLER. I think I can give you the power companies that we have in Alaska.

Senator STENNIS. Just the number of them. I am thinking of these local companies. No one has mentioned the total number of power companies.

Mr. BUTLER. Of course, Anchorage is a city utility.

Senator STENNIS. Well, if you don't have it on the tip of your tongue, let's just skip it and go ahead. You want something now in this bill or in the report that will keep these gentlemen from being—just what is it you want? I am not sure that I know enough about your business to fully understand all of your statement, even though it is a good statement. Those more versed in it can understand. You are not contemplating selling to anyone that might buy. It is not a part of the present plans, anyway.

Mr. BUTLER. No, sir. We wouldn't be approached, sir.

Senator STENNIS. You would not be approached?

Mr. BUTLER. No, sir.

Senator STENNIS. And your company expects to continue to operate.

Mr. BUTLER. Yes, sir. We are operating now in local service and would continue to do so.

Senator STENNIS. Yes. Well, how would this bill affect you, then?

Mr. BUTLER. Well, the bill would change the toll connection for our companies.

Senator STENNIS. Your what?

Mr. BUTLER. Toll connections.

Senator STENNIS. Yes.

Mr. BUTLER. In other words, the company that would take over or companies that would take over would possibly pay a different type of settlement than the Alaska Communication System is paying today.

As you know, the local companies get a percentage of the calls for collecting, handling, billing, and so forth of the business. They maintain it is not sufficient. A new company taking over probably would make some changes, would undoubtedly make some changes in the settlements. Bell is making almost annual changes in their settlements in the 48 States.

Senator STENNIS. It might develop that some of your local companies would be bought out and others would expand on their own? Is that a part of the things that you contemplate could happen?

Mr. BUTLER. No, sir.

Senator STENNIS. No?

Mr. BUTLER. No, sir; only the toll connection would be involved in this.

Senator STENNIS. I know it wouldn't be a part of the deal, but I thought maybe it would lead to a purchase by some of the companies.

Mr. Kendall, do you have any questions?

Mr. KENDALL. No questions, Mr. Chairman.

Senator STENNIS. Mr. Butler, I am glad you came in here.

Mr. BUTLER. Thank you very much.

Senator STENNIS. We want to see how the so-called little fellow feels about this thing, the small operator.

Mr. BUTLER. Thank you.

Senator STENNIS. Do you represent all of them for the whole Nation?

Mr. BUTLER. Yes. We represent the national organization, 92 percent of the national companies, and also 92 percent of the Alaska companies.

Senator STENNIS. Do you have any companies up there organized under the so-called REA Telephone Act?

Mr. BUTLER. There may be some REA money on that. I could provide it for the record. It is not much, but I could provide it for the record if you like.

Senator STENNIS. Thank you very much for your testimony.

Mr. Reimer, we did not have your name this morning. We did not mean to skip you and overlook you, of course. Who do you represent?

STATEMENT OF HARRY REIMER, PRESIDENT, ALASKA TELEPHONE ASSOCIATION

Mr. REIMER. I represent the Alaska Telephone Association, which has all the operating companies in Alaska.

Senator STENNIS. All right, have a seat.

Mr. REIMER. I am also the manager of the telephone system in Fairbanks, the second largest in the State. I might add that I spent 3½ years working for the ACS, and the past 16½ years as an operator or operating company in Alaska.

For the benefit of all the Alaskans and for the development of communications in Alaska, I am convinced it would be to the best in-

terest of all concerned that the Alaska Communication System (ACS) be sold.

For many years we as operating companies have tried to build first-class communication facilities based on promises from the toll operator—the ACS.

In 1956 Colonel Gray stated, and I quote:

We expect sometime within the next year to change from a purely military type of structure into more of an industrial type, which I am sure will better meet the demands of the using agencies in Alaska, and will give us more freedom to operate than we have had in the past. We are looking forward to it with joy because we know that some of the restrictions we have had will be removed.

In August of 1960 Colonel Schneider stated:

The ACS wishes to assure the members of the Alaska Telephone Association (ATA) that it will continue to direct its efforts to providing Alaska with the most efficient and reliable toll communication services possible.

On September 16, 1960, our Military Affairs Committee requested of Colonel Thorpe and Lieutenant General Armstrong information regarding local companies furnishing service where capabilities and willingness were shown—such as routing toll traffic through the local exchanges—the possibilities of the local company providing operating and maintenance for existing communication facilities where a mutually beneficial arrangement could be negotiated. November 20, no response, so another letter was written.

In December of 1960 we received a letter which stated in part:

As you know, Defense Department has sponsored legislation to permit the sale of ACS. Until this legislation has been passed it is incumbent upon members of the Defense Establishment to protect the Government investment.

In August of 1961 Colonel Whie stated:

Our long-range plans contemplate the complete modernization of our telegraph and teletype service. This project is scheduled for completion sometime in the calendar year 1963.

I say all this only to point out that we have had promise after promise, delaying tactics, studies upon studies and further delays due to governmental redtape with little or no visible results in capital improvements necessary to meet present-day demands.

The following are some areas of discriminatory service which I feel would be resolved when ACS is sold.

First, DDD. Prior to 1960 our operating companies were told this service was coming to Alaska. In August of 1963 we were told that DDD was programed for 1965 and for us to plan accordingly. We did order additional equipment for our offices but nothing more has ever been done. I'm sure we are just as far away from DDD, as we were in 1963. The reason? We are told that Congress will not appropriate the money necessary.

Senator STENNIS. Pardon me, now. You have labored that a good deal. That is perhaps a good answer, isn't it? Congress hasn't acted in this field. That is the answer to the delay, isn't it?

Mr. REIMER. Well, in the past Congress has always appropriated money for capital improvements, sir.

Senator STENNIS. Well, I know, but is it the fault of the Department of Defense that they haven't done these things you want them to do, is it?

Mr. REIMER. I think it is the fault of somebody that not enough money is appropriated.

Senator STENNIS. Well, if you think it is Congress, just say so. We are not thinskinned around here at all.

Mr. REIMER. Then I will say Congress is at fault in not appropriating money.

Senator STENNIS. I don't think you are going to get much capital improvement money through the military except for what the military needs itself. That is their business.

Senator BARTLETT. I think we ought to clear up this point. I am willing to blame Congress when Congress should have the blame, but I am not at all sure that the appropriation request for this modernization program ever reached as far as the Congress. I think it got chopped off somewhere downtown. We had better verify that later, but that is my recollection.

Senator STENNIS. All right.

Mr. REIMER. All I can say is that every year when we have our convention, we come up with these problems, and the answer that we get as operating companies, that the Congress does not appropriate the money, so we cannot advance.

Senator STENNIS. Well, I pass on a good many of their appropriations. I mean I am one that passes on them with several others. They are not timid in asking for money. You need not doubt that.

Go ahead with your statement.

Mr. REIMER. Second, outrageously high toll rates. In 1953 the charges for a 3-minute call were \$9.90; today they are \$8.00. Again, with the Government establishing its own rates we Alaskans have been penalized with high rates when in the lower 48 the trend in rates has been steadily downward.

Third, special after-hour rates—another service our people would enjoy using.

Fourth, TWX or TELEX service. We have many subscribers who have asked for some sort of TWX or TELEX service. For years we have been told it is impossible to furnish this service until Congress would appropriate money for this service. Just a few weeks ago one of our subscribers, and only one, was given this service because enough pressure was brought to bear through the right channels. This, I feel, is highly discriminatory service which only a non-regulated body such as ACS could furnish.

Fifth, we all realize the need for promotional advertising to increase our volume sales. The Government has never been able to advertise and what little advertising has been done in the past has been at the expense of the operating companies for the benefit and financial gain of the Government.

For these reasons and numerous other incidents, I believe it to be to the best interest of all Alaskans and for the improvement of communications in Alaska that the ACS should be sold.

I would further urge Congress to take appropriate action not only to sell the facilities but that Congress negotiate a sale of the system with the Alaska Telephone Association, Inc., a group of operating companies who are aware of the problems of doing business in Alaska and most of all, who are interested in improving communications at a fair rate to our users.

Senator STENNIS. Senator Bartlett, do you have some questions of Mr. Reimer?

Senator BARTLETT. No, I don't think so. I want to thank Mr. Reimer for having made this long trip. I am mightily tempted to ask him some questions relating to this point No. 4 on page 3, but I guess I won't, where he says one company and one only has been able to get TELEX service.

Senator STENNIS. I don't suppose you are going to get much service like that unless you get some relief such as is proposed by this bill. Mr. Kendall, do you have some questions?

Mr. KENDALL. No questions, Mr. Chairman.

Senator STENNIS. Let's see if there is anyone else who wants to say something. We do want Mr. Perry back. Mr. Harris, were you through? We put all your matter in the record.

Mr. HARRIS. My statement is in the record.

Senator STENNIS. Thank you very much. Mr. Perry, do you have something else to say? Come around, please.

Senator BARTLETT. I have a couple of questions of Mr. Perry.

Senator STENNIS. Come around, please, Mr. Perry.

All right, Senator Bartlett has a few questions.

Senator BARTLETT. The first question is generated by that which has just been asked here; has the Department of Defense and/or the Air Force ever asked Congress for modernization money?

Mr. PERRY. To the best of my knowledge, Senator, the requests for modernization that have been proposed have been eliminated from the budget before it was submitted to the Congress.

Senator BARTLETT. Perhaps I might suggest to the chairman you would care to check that and make a further statement if necessary.

Mr. PERRY. All right, I will be happy to.

Senator BARTLETT. My second question relates to this. Do you care to comment now, because I think it is extremely important, on the 1963 report of the Midwest, or Middle West Co?

Mr. PERRY. Yes, Senator, I would like very much to comment on that if I may, since it has been raised.

The report of the Middle West Service Co. was prepared for the Air Force at Air Force request, shortly after the Air Force took over operation of the ACS. It was never intended and was not submitted to the Air Force as a recommended course of action. Rather, it was a case of the Air Force asking the company to analyze this system which we had just acquired, and to tell us what, in the company's opinion, the prospects for sale of the entire Government communications complex in Alaska would be.

The results of that study, very briefly, were to indicate that because of the volume of commercial business in Alaska, and the dollar investment in the entire Government-owned complex, it would not be possible to sell the entire system at a full, fair and reasonable value determined in terms of the Government investment.

The Middle West report did not purport to recommend that we sell the system at all. Rather, it purported to tell us what the likelihood of our being successful in the sale would be.

As a result of that, we prepared a rather detailed analysis of the report and its impact on our operations, a copy of which has already been furnished to the chief counsel for this committee. It was transmitted by the Air Force to the Office of the Secretary of Defense by

the memorandum of March 9, 1965, to which reference was made earlier today.

I think it rather important that it be understood that the purpose of that study was internal guidance for the Air Force as to what the possibilities were, rather than any recommended course of action.

Senator STENNIS. You are leaving us a copy of that report for the files.

Mr. PERRY. Yes.

Senator STENNIS. All right, go ahead, Senator.

Senator BARTLETT. My next question relates to a different interpretation placed upon earlier remarks you made, by Mr. Sharp and by me, and this concerns civilian service to the bush stations, where the military would retain ownership of its facilities.

Without putting any questions to you, because they might be leading, what would be the intention of the Air Force in respect to such civilian service?

Mr. PERRY. Senator, so long as the Department of Defense continues to have a requirement for what is referred to as the White Alice System, and so long as that system has capacity which is excess to our needs in the normal peacetime operations, we would expect to make capacity on that system available to the commercial operator in the State of Alaska at a fair and reasonable charge based on his actual use of that capacity.

The only limitation that I can foresee with regard to the bush operations to which you referred is a possibility that at some future date the Government requirements for some of those facilities up there may cease. So long as that does not happen though, so long as we continue to need those facilities for defense purposes, I cannot anticipate any situation in which we would not be able to make the facilities available to the commercial operator with the right of recall in the event of emergency.

Senator BARTLETT. Can you anticipate any situation in peacetime which would require the military to use all the available channels?

Mr. PERRY. On some of the facilities in the southeastern part of Alaska, the time may well come when the combined Government and commercial requirements will exceed the total capacity now available.

I can't believe, Senator, that that presents a serious problem to a commercial operator. If the volume of business is such as to justify additional total facilities, the ability to provide those facilities should be fairly easy to establish. The real problem as we have seen it related to the communities in the more isolated parts of the State—

Senator BARTLETT. Where the distances are even greater,

Mr. PERRY (continuing). Where the distances are very great, and where the volume of requirement would probably not justify the establishment of a commercial communication system paralleling the existing military system.

Senator BARTLETT. You talk about the possibility in some future years, of these White Alice facilities, for example, not being required by the military, and, of course, that may be true.

We hope it is for a good many reasons, that we won't have that need for a constant warning system. But if that were to occur, would it be a correct assumption on my part that at that time DOD would seek to divest itself with the permission of the Congress, of these facilities?

Mr. PERRY. I would anticipate that to be the case; yes. The bulk of the facilities that we are concerned with here are fixed facilities which cannot be removed and reused except at rather considerable expense, and probably if our requirements for some portion of the present system in Alaska were to end, those facilities would be disposed of, possibly under the authority of the bill that is being considered by this committee today.

Senator BARTLETT. Thank you. That is all, Mr. Chairman.

Senator STENNIS. Mr. Kendall, do you have anything further?

Mr. KENDALL. One or two questions, Mr. Chairman.

Senator STENNIS. All right.

Mr. KENDALL. Mr. Perry, I wonder if you would comment on a point that came up after you were on the stand this morning. That is, the Air Force's attitude toward a tradeoff between getting absolute top dollar for the physical facilities and in reaching a result that involves adequate compensation as the bill specifies, but yet provides assurance for a fair rate base and adequate service to the State of Alaska.

Mr. PERRY. Mr. Kendall, the bill as it has been prepared requires that the Government receive adequate compensation for the facilities to be transferred. We in the Department of Defense consider that to be the primary objective which would have to be achieved in any sale or other transfer under the authority of this bill.

In view of the interest which has been expressed by commercial operators, however, we think it very likely that the operators offering to purchase the ACS will be willing to offer something more than we would determine to be the adequate compensation.

The suggestion was made by one of the witnesses that in the event that situation did arise, the additional benefit should be cast in the terms of improved rates or improved service to the public in Alaska, rather than for the Government to seek to obtain more than a fair and reasonable and adequate compensation for the facilities to be sold.

We in the Department of Defense agree with that completely. We feel that once we have achieved the adequate compensation to the Government, any further benefits to be derived from the competitive interests of these several commercial operators should be channeled to improve the service to the public, rather than seeking to inflate the price for the facilities you are selling.

Mr. KENDALL. Would you propose, for example, to fix an upset price on certain of the physical facilities, and request bids on that basis, with the added attractions and benefits that you mentioned?

Mr. PERRY. We contemplate fixing an upset price for the facilities to be sold. Whether we would limit the sale to that price or use that as a minimum with some range of reasonable price, I cannot tell you yet. That will depend on a very careful analysis of the facilities which we are just now beginning to undertake under the proposal for possible industrial funding.

Mr. KENDALL. How would you evaluate or fix a value on these facilities? What would be your process, and by whom and under what general criteria?

Mr. PERRY. The value for the facilities would, of course, under the terms of the bill be ultimately the responsibility of the Secretary of Defense or his designee, since he has charge of establishing the terms of the transfer, including assuring that an adequate consideration is received.

In determining what constituted an adequate consideration, we would want to give considerations to the acquisition costs and depreciation which might be appropriate for the facility and to the question of probable extent of use of that facility, cost of reproduction of the facility, cost of installing an alternative facility which might achieve the same purpose. These latter elements would, however, be secondary factors tending to modify the basic question of acquisition cost minus fair depreciation.

Mr. KENDALL. There is one other point I would like to bring up. As I understand it, one of the reasons why this has not been handled under the Surplus Property Disposal Act is the fact that it cannot be said in finality that the Government has no more use for this property. Is that accurate?

Mr. PERRY. That is correct, sir. In recent years, the ACS facilities have handled a volume of business of which some 10 to 15 percent has been Government business, some for the Department of Defense and some for other agencies of the Government. Because of that volume of business, we have felt that it would not be appropriate to assert that the ACS was surplus to the needs of the U.S. Government.

Mr. KENDALL. In other words, if these facilities are sold, the Government would still have to use them either under a lease or some other arrangement, is that right?

Mr. PERRY. In some cases, it might involve a lease usage, but predominantly it would be a case of individual message transmission using the services of the new commercial operator.

Mr. KENDALL. I am sure you are as anxious as the Congress is to guard against the possibility of any lease arrangement or leaseback of facilities which would lay you open to the charge that you were subsidizing industry.

Mr. PERRY. Of course we are.

Mr. KENDALL. And you are telling the committee that that will not happen.

Mr. PERRY. That will not happen. This is one of the reasons, in addition to the general public interest reason, why we would expect to ask all offerers to propose to us the rate schedule at which they would operate. Knowing that rate schedule, we would be able to evaluate the cost to the U.S. Government of purchasing service from the commercial operator and compare that to the cost of Government operation.

Mr. KENDALL. That is all I have, Mr. Chairman.

Senator STENNIS. In this case, though, you are not going to have those rates before you, are you?

Mr. PERRY. We would expect to have those rates before us, before any decision were made on sale, sir. We would expect to ask each of the companies to propose the rates to us.

Senator STENNIS. You mean the rates that the Government is going to pay.

Mr. PERRY. The rates that they would propose to charge to the public.

Senator STENNIS. The public, too.

Mr. PERRY. Yes, to any other purchaser of service.

Senator STENNIS. I am glad to hear you firm and clear on that, because that is such an essential part. Now, what do you mean by this upset price? Was that the term used?

Mr. PERRY. That was the term used, yes.

Senator STENNIS. Or upset figure. What do you mean when you say that?

Mr. PERRY. Mr. Chairman, it is our firm intention, if we are not able to obtain an offer to purchase the ACS under terms and conditions which we think would protect the interests of the Government and the public, to continue operation of the ACS as a Government-controlled entity. In that case, then, we would use an industrial funding approach to continue in operation.

In order to make that decision, whether to sell at all, or to retain, we would expect to establish a minimum price or prices for the facilities which might be sold, and to insist from the offerers on offers which would recover for the Government at least that minimum price. That minimum price is what I have referred to as an upset price.

Senator STENNIS. Upset price.

Mr. PERRY. Below which we would not sell at all.

Senator STENNIS. And as fine as the people of Alaska are, and as fine as their Senators are, I don't favor giving property away just because it is Government property. I think there ought to be a fair price paid for this property.

Mr. PERRY. Mr. Chairman, the Department of Defense agrees with you completely.

Senator STENNIS. I beg your pardon?

Mr. PERRY. I said that the Department of Defense agrees with you completely.

Senator STENNIS. I wouldn't know just how to measure a fair price, but I think it would be in the best interests of all that we receive that. That is the starting point. But at the same time, you are going to have to know something about the rates that they propose to use, and of course, that implies a tentative consent to those rates by the public utility commission there in Alaska.

Mr. PERRY. That is right, sir.

Senator STENNIS. As well as here in Washington; does it not?

Mr. PERRY. I had indicated in my statement that in evaluating the public interest aspects of this legislation, we would look for participation by the State of Alaska through representatives designated by the Government for that purpose.

Senator STENNIS. Yes. Well, I want to say this to Mr. Reimer. I know he feels that the companies have been discriminated against out there, and kind of knocked away from the table by the Department of Defense with reference to your expansion programs and what they could allow, but they naturally have to take care of their interests, their first demands, and I don't know that they are so much to blame.

Furthermore, you have all that beautiful scenery out there in Alaska, and don't have to pay any more taxes than other people do, so you have got something coming there.

Well, I am very glad to hear all of this. I want to commend all of you gentlemen for your presentations. It has been splendid and right to point, and you have said that you meant and meant what you said. I want to thank you, too, Mr. Perry, and the others from the Department of Defense.

Senator, I want to thank you as well as to commend you for your part. You have been interested in this matter and responsible for these hearings being held. You have helped us get ready for them. Your valuable staff member has, too. We are going to give Senator Gruening of Alaska notice about anything that he wants to say for the record.

Does any one else have anything they wish to say?

Senator BARTLETT. Yes, I do.

Senator STENNIS. All right, Senator.

Senator BARTLETT. Some divergent views have been expressed here today, Mr. Chairman, not many, but I am sure I would voice not only the consensus but the unanimous feeling of all who have testified here today and all who are interested, in expressing gratitude to you for having sat here all day and been so patient and so helpful in considering this matter that is of such importance to Alaska.

Senator STENNIS. It is not only my duty but it is a special pleasure. We hope this matter will all be wrapped up. I want to put a telephone call through before too long to Alaska and I don't want to have to pay \$12.50 or \$15.

We thank all of you for your help. Mr. Perry, you say you have nothing further you want to put in the record?

Mr. PERRY. No, thank you, Mr. Chairman.

Senator STENNIS. Does anybody else have a point they wish to make?

With the thanks of the committee, we will take a recess now, subject to the call of the Chair.

(Whereupon, at 4:20 p.m., the above subcommittee adjourned, subject to the call of the Chair.)

Senator, I want to thank you as well as to commend you for your part. You have been interested in this matter and responsible for these hearings being held. You have helped us get ready for them. Your assistance in getting the bill passed is appreciated. We are going to give Senator Gorman of Alaska a personal message that in Alaska we are going to give you the credit for the record.

Senator Gorman: Yes, I do.

Senator Gorman: All right, Senator. Senator, I don't know if you have expressed your views, but I am sure I would voice not only today, but tomorrow, but I am sure I would voice not only the concerns of the numerous people who have testified here today and all who are interested in expanding service to you for having set back all day and then expansion and so helpful in considering the needs of such important people.

Senator Gorman: It is not only my duty but it is a special pleasure. We are glad to have you here. I want to put a telephone call through to Alaska and I want to have to pay for it.

What about all of you for your help, Mr. Gorman, you say you have nothing further to want to put in the record?

Senator Gorman: No, thank you, Mr. Chairman.

With the thanks of the committee, we will take a recess now, subject to the call of the Chair.

(Whereupon, at 2:30 p.m., the above subcommittee adjourned, subject to the call of the Chair.)

APPENDIX

U.S. SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
June 14, 1966.

Hon. JOHN STENNIS,
*Chairman, Preparedness Investigating Subcommittee,
Senate Committee on Armed Services, Washington, D.C.*

DEAR MR. CHAIRMAN: Having had an opportunity to review carefully the bill, S. 2444, and study the implications of enactment of legislation authorizing the Department of Defense to dispose of the Alaska Communications System, I would like to present the following comments for the consideration of the Preparedness Investigating Subcommittee.

At the outset, I should like to make it clear that I believe the operation of the Communications System by a qualified commercial firm would be of greater benefit to the people of Alaska than retention of this important utility by the Defense Department. All the disadvantages of government operation of an essentially commercial enterprise lead to the conclusion that operation by private entrepreneur could be more efficient, and potentially less costly.

However, the bill, which has been introduced by my colleague, Senator Bartlett, in my judgment requires additional elements which I consider to be essential for the protection of the people of Alaska. The authority of the Department of Defense to dispose of the Communications System is very broadly described and does not contain the kind of safeguards which should be included in any bill such as this.

My concern is that the people of Alaska who will subscribe to a communications system must be assured that the operators of the system will provide service under conditions and at rates which will not only match those now in effect but represent an improvement in service and reduction of costs. Therefore, I would like to recommend that S. 2444 be amended to include the following provisions:

(1) That before a sale of the System is consummated that the Department of Defense be required to publish an official statement of the specific facilities to be transferred and an evaluation of such facilities computed in accordance with recognized standards of public utility accounting procedures.

(2) That a hearing procedure for public examination and review of proposals of potential purchasers in advance of the sale be written into the law for the purpose of allowing the general public knowledge of and an opportunity to be heard on conditions of service and rates to be applied by the purchaser before the sale is consummated.

(3) The establishment of a special commission to be composed of representatives of the Secretary of Defense, the Governor of Alaska, and the Federal Communications Commission to conduct the hearings on qualifications of potential purchasers of the system. Such a commission should be given authority, possibly with right of appeal to another forum, to select the purchaser or purchasers of the communications facilities which will provide the best service at lowest rates to the people of Alaska. In effect, what I propose is the establishment of a body authorized to issue a certificate of convenience and necessity to the successful purchaser in advance of the sale of facilities.

It is the recommendation of Governor Egan that the objectives outlined above be accomplished by a requirement that the Department of Defense conduct an economic and engineering study of the Alaska Communications System and the probable effects of private operation before a sale can be made. This is an approach which should be given careful consideration.

As I am sure you understand, my interest is that of insuring the protection of Alaska telephone and telegraph subscribers. I understand the Federal Field Committee for Development Planning in Alaska and the Department of Defense feel certain the requirement of S. 2444 for action by the Secretary of Defense "in the public interest" is sufficient to insure the negotiation of a contract on terms which will adequately protect that interest. My own view is that the

contracting authority of the Department of Defense, although exercised with the highest standards of integrity, cannot substitute for legislative provisions guaranteeing the right of Alaska consumers to protection of their interests.

With best wishes, I remain,

Cordially yours,

ERNEST GRUENING,
U.S. Senator.

STATE OF ALASKA,
OFFICE OF THE GOVERNOR,
Juneau, June 14, 1966.

Hon. JOHN STENNIS,
Chairman, Preparedness Investigation Subcommittee, Committee on Armed Services, United States Senate, Washington, D.C.

DEAR SENATOR STENNIS: We appreciate very much the time you and other members of the subcommittee devoted to the hearing on May 31, 1966, on S. 2444, a bill to authorize the disposal of the Government-owned long-lines communications facilities in the State of Alaska. Mr. Robert E. Sharp, Assistant Commissioner of Administration, has briefed me on the hearing and reviewed the Report of Proceedings which your General Counsel, Mr. Kendall, was kind enough to furnish for our review. I think it is appropriate for me, with this further information, to make clear the State's position on this bill and the subject generally of long-lines communications services to and in Alaska.

It was noted that none of the private firms showed any interest in the purchase of the total communications complex. Therefore, I want to withdraw the recommendation in the testimony of the State of Alaska for an engineering feasibility study as to whether a portion or all of the facilities should be sold. However, the need for professional engineering services in conjunction with the disposal and subsequent regulation will be discussed later in this letter.

It is further noted that none of the testimony covers the cost of specific capital improvements required to provide adequate long distance services or a projection of rates. The lack of rate projections is understandable in the light of certain unknown factors. There was general speculation that rates can be reduced under private ownership of those facilities used primarily for commercial traffic but such speculation is not supported by an engineering analysis or study. If such reductions are to be taken in amount, the wisdom of disposing of these facilities becomes very questionable. However, it appears to us this question will have to be finally answered subsequent to authorization for disposal of the facilities.

We feel the "key" as to whether the long-distance services are improved and rates substantially reduced lies in the sales price of the facilities to be sold and the charges to be made for use of the circuits and facilities which would remain in Government ownership. By a "substantial reduction" in rates we mean from 25 to 50 percent for both intra-state and inter-state service.

A number of the private firms who have expressed an interest in the acquisition of the commercial facilities have experience in providing long-lines communications services and the financial ability to assume the service obligation. Given a pre-determined "purchase price" they would have an opportunity to compete on improved services and rates. Otherwise, we feel the real competition will be on price, and the higher the price the less opportunity there will be to effect a "substantial reduction" in rates that are two and three times greater than in the contiguous United States for the same service. For example, it would be most difficult for the Secretary of Defense to disapprove a sale to the high bidder, say 15 percent above the second high bidder, proposing basically the same improvements in service and promotional rates which may or may not initially pay the cost of service. If the sale to the high bidder was approved under these circumstances, the purchaser could justify in a few years an increase in rates and state and federal regulatory agencies could not arbitrarily disapprove such increase.

The testimony of Government witnesses does not reveal what they consider "adequate consideration," which is basic to the feasibility of private ownership. An ACS official speaking in Cordova just after the hearing on S. 2444 referred to a "price tag" of \$25 to \$30 million and stated that under current Defense policy this was not going to be a give away program. This same speaker quoted a figure of \$35 million a few days later in an address at Anchorage. The Bureau of the Budget assured me in March, 1966, that "the 1967 Budget, includes, as a contingency item, the receipt of about \$30 million from the sale." One testimony

of Government witnesses at the hearing was to the effect that the commercial facilities had an acquisition cost "slightly in excess of \$30 million." Government witnesses further stated that their best estimate of potential revenue to the Government from the sale to be in the "magnitude of \$30 million," depending on what facilities are actually sold. These figures indicate an intent to recover most of the Government's investment in these facilities which, in many cases, have been installed for many years. It is not reasonable to expect such a high recovery and certainly inconsistent with assurances elsewhere in the testimony that the public interest will be protected. A sales price in the \$25 to \$30 million range, in our opinion, will leave little room for a "substantial reduction" in rates which we believe is the common objective of both the federal and state governments.

This disposal is entirely different than the sale of surplus property where a fast profit can be made through low Government sales prices. The purchaser of these facilities will be limited as to the profit that can be made on his investment by both state and federal regulatory agencies. Furthermore, an appropriate clause can and should be written into the sales contract limiting the price of these facilities in the event of resale. The prime beneficiaries of a relatively low sales price will be the users of the service, both private and government.

We believe the proper approach for the disposal of the commercial facilities is a modified fixed price sale. The steps we envision in this approach are as follows:

(1) *Pre-sale Conference.* All interested parties would be invited to a conference at which the facilities the Government is generally interested in disposing of would be outlined and discussed. The circuits and other facilities available for lease would be discussed. Interested parties would then be asked to submit within a specified time written proposals as to the facilities they wished to purchase and circuits and facilities they wished to lease.

(2) *Fixed Price.* Based on the information obtained in Step (1), the Government would fix the sales price and lease rentals to be charged. The sales price and rental charges should be fixed after a professional engineering analysis of the effect of such price on rates. In other words, the engineer would assume a fixed price and analyze the cost of capital improvements needed to provide improved services; and from these assumptions compute the cost of service and the rates necessary, after projecting potential traffic, to pay the cost of service. We believe projections as to traffic, cost of service and rates should cover a minimum of five years, and preferably ten years. This study would not only provide a method of determining an adequate consideration for the Government from the sale of these facilities, but also would provide a yardstick to later evaluate proposals received for the purchase. In the course of fixing the price, the adequacy of the facilities proposed for purchase to provide long-distance service could be analyzed. The scope of this analysis would be sufficient to provide guidelines for the use of the regulatory agencies concerned with this matter. This phase of the disposal procedure permit the balancing of the Government and public interest in this sale.

(3) *Invitation to Bid.* Following Step (2) the Government would complete its bid specifications, including the price for facilities to be purchased and leased, and invite proposals based on

- (a) Proposed capital improvements, including cost, over a five-year period.
- (b) Cost of service, including a plan of operation and data supporting the cost of service. And, in addition, indicate the number and classes of ACS civilian employees that would be offered employment and the basis for such offer.
- (c) Proposed rate schedules, including connecting carrier charges. The proposed rate schedules should include basic rates projected over a five-year period, as well as promotional rates which the bidder intended to employ to increase the volume of traffic.

We believe this is a sound approach that would protect the Government from a charge of "give away" and at the same time provide assurance that "substantial rate reductions" over a reasonable period of time would result from the sale. The bids could be realistically evaluated under this approach.

I appreciate the sales procedure cannot, and should not, be written into the bill. For this reason, I am sending a copy of this letter to Mr. Perry, who represented the Defense Department at the hearing, with the request he advise you and me if this approach to the sale is generally acceptable to the Defense Department. If it is acceptable, I will withdraw all of the State's recommendations for amendment of the bill and urge its immediate passage.

Another important factor to the private operator in providing long-lines services in Alaska is the availability of circuits for commercial use over the facilities retained by the Government. We understand from testimony given that circuits excess to the Government's needs would be leased to the private operator at a reasonable rate, and the number available should be sufficient except in the event of an emergency. We can envision the need for additional circuits, short extensions of the Government-owned system, terminal and other facilities which could not be economically provided by the private operator, particularly to serve the more remote areas of the State. Therefore, to clarify this matter, we request there be included in the Committee report on this bill the following or similar language: "Notwithstanding the authority contained in this bill for disposal of long-lines communications facilities in the State of Alaska, by passage of this bill it is not intended to impair the existing authority of the Defense Department to provide facilities for handling commercial traffic in those areas in which it may continue to own and operate long-lines communications facilities." We feel this clarification of the record is important to assure service to remote areas of the State.

This is a highly important bill to Alaska. For this reason, I feel duty bound to exert every effort to insure that the sale of these facilities will produce both improved services and substantial rate reductions over a reasonably predictable period of time. We have no desire to either delay action on this bill or the disposal process in the event Congress enacts it into law. However, we think the procedure which is to be employed should be known and that it should be designed to safeguard the interests of both the Government and the general public.

Copies of this letter are being forwarded to the other subcommittee members and the Alaska Delegation.

In closing, again let me express my appreciation for not only the time but the intense interest of the subcommittee in making sure the best interests of the Government and user of this service will be served by the enactment of this bill.

Sincerely,

WILLIAM A. EGAN, *Governor.*

DEPARTMENT OF THE AIR FORCE,
Washington, D.C., June 24, 1966.

HON. JOHN C. STENNIS,

Chairman, Subcommittee on Preparedness Investigating, Committee on Armed Services, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Governor Egan has sent to me a copy of his recent letter to you concerning S. 2444 and has asked that I advise you of our views concerning his suggestions. Attached is a copy of my response to Governor Egan summarizing the concepts we expect to apply in disposing of the Alaska Communication System if S. 2444 is enacted.

Briefly, we agree that rates to be charged the general public and capital improvements to be made must form a very important part of the basis for selecting the private company to take over long-lines-communication service in Alaska. To this end we recognize that prices for the facilities to be sold and rentals which the Government will charge for the use of facilities which it retains must be made known to all offerors in advance so that they can prepare meaningful offers. To assure full understanding by all offerors of what we desire, we agree with the Governor that we should hold a conference with all prospective offerors immediately after issuing our request for offers. We would hope to have participation by State representatives at that conference and we would expect to have the assistance of representatives designated by the Governor in evaluating the public interests aspects of the various offers ultimately received.

I believe that the concepts described in my letter to the Governor are consistent with the objectives described in his letter to you and I hope that consideration of S. 2444 can proceed with the goal of enactment this year.

Sincerely yours,

JOHN W. PERRY,
Deputy for Transportation and Communications.

Attachment.

DEPARTMENT OF THE AIR FORCE,
Washington, D.C., June 24, 1966.

HON. WILLIAM A. EGAN,
Governor of Alaska,
Juneau, Alaska.

DEAR GOVERNOR EGAN: I appreciate your kindness in letting me review the thought provoking suggestions which you have forwarded to Senator Stennis with regard to protecting the interests of the public in Alaska in connection with any transfer of our commercial long-lines activities to a private company.

At the outset let me assure you that I am disturbed as you are at the statements concerning sale price and future rates made by two Air Force officers in answer to questions arising after recent speeches in Cordova and Anchorage. These officers were not authorized to speak for the Air Force on these subjects, and indeed, we in Washington were completely unaware of their statements until Joe FitzGerald and you called them to our attention. Any implication in statements of these officers that the sole purpose of the sale of the ACS is to obtain as much revenue as possible for the Federal Government is completely inconsistent with the views of the Department of Defense on transferring the ACS to private operation and the procedures which we believe should be followed to protect the interests of the people of Alaska.

We agree with you completely that a competitive sale seeking to obtain the highest possible price, which the purchaser would seek to recoup through the rates charged to the public for service, would *not* be in the public interest. We also agree that the rates and capital improvements proposed by the offerors should be major determinants in evaluating the various offers. Accordingly, we plan to require each offeror to specify the exact scale of rates at which it proposes to provide service and to specify in detail the modernization and expansion actions which it will undertake during an initial period of operation. In evaluating these public interest aspects of the sale, the Department of Defense would fully expect to work closely with the people whom you would designate to represent the interests of the State and the several communities in Alaska served by the long-lines system, with the Federal Field Committee for Developing Planning in Alaska, and with representatives of the Federal Communications Commission.

To enable the offerors to make firm proposals on rates and capital improvements, we expect to establish in advance the fair and reasonable prices which we expect to receive for the facilities offered for sale, basing this price on the original acquisition cost, the appropriate depreciation, the degree of obsolescence, the probable replacement cost, and other appropriate guidelines. Moreover, the offerors will not be required to purchase all of the equipment and facilities offered for sale, but will be free to reject any items of equipment which they feel should be replaced at the outset with more efficient modern equipment.

Much of the long-lines equipment in Alaska, used predominantly for Defense purposes, will be retained by the Department of Defense and the offerors will also be advised of the rates which the Government will charge for capacity in these Government-retained systems. Again, we would expect to allow each offeror to decide for himself the amount of capacity which it would need in the Government-retained systems in order to provide adequate service to the public throughout the State. We expect to establish both rates for dedicated circuits, which would be appropriate where a relatively high volume of commercial business is anticipated, and message rates which would allow the commercial operator to obtain service at reasonable prices over circuits where the volume of public business is small.

As you suggest, we would expect to have a presale conference to which all interested parties would be invited. At that conference we would discuss our request for offers thoroughly to assure that all perspective offerors understood exactly what was expected from them. We would hope to have participation from representatives of the State of Alaska whom you might designate.

I believe that these procedures are fully consistent with the objectives outlined in your letter to Senator Stennis to protect the interests of both the Government and the people of Alaska, and I hope you will agree that disposition under these criteria will be in keeping with the concepts expressed in your letter and with the intent of S. 2444.

On this basis I hope you will consider it appropriate to support enactment of S. 2444 in the form now under consideration by the Senate Preparedness Subcommittee.

Sincerely,

JOHN W. PERRY,
Deputy for Transportation and Communications.

CITY OF KENAI,
Kenai, Alaska, May 28, 1966.

HON. E. L. BARTLETT,
*Senate Office Building,
Washington, D.C.*

DEAR SENATOR BARTLETT: Prompted by your memorandum of May 19th, 1966, the Council has directed that I notify you of the attitude of the City of Kenai on Alaska Communication System (ACS) Sales Legislation.

The City of Kenai would urge that any sale of ACS be accomplished to achieve at least the following:

1. The faster service which is available throughout the entire South 49 States by reason of direct long distance dialing.

2. That the sale be accomplished so that rates which would have to be charged would not be predicated on an inordinately large rate base. This would involve separating ACS from the other defense commitments of the communications network (such as the White Alice System).

We wish to thank you for notifying us of this hearing.

Very truly yours,

JAMES W. HARRISON,
City Manager.

HOMER, ALASKA, *May 31, 1966.*

HON. E. L. BARTLETT,
*United States Senate,
Washington, D.C.*

DEAR BOB: Your advice of the hearings regarding the ACS Sales Legislation reached me yesterday so am just adding a few words from one of the smaller communities in Alaska.

As previously communicated to you, the rates presently in use by ACS are, in my opinion exorbitant for the service received. The State of Alaska is receiving a discriminatory rate structure that penalizes a person living in Alaska in comparison with the residents of the other 48 States south of Alaska. I am not aware of the Hawaii telephone rate structure.

The way matters now stand, a long distance user pays a higher or increased rate for 3 minute calls and the alleged reduction for station to station rates are not really applicable to Alaska. When we call Stateside the expense is so great that unless we can talk with the selected party, the call has been an expense without satisfaction. Station to station rates then are not as important as person to person rates.

Another point is the one dollar rate that is excluded from Alaska for calls after 9:00 P.M. This is available in the south 48 yet Alaska is deprived of this benefit.

It is my understanding that the military services telephone charges are charged off to be borne by the civilian long distance telephone users in a major part.

The military concepts for telephone service appear to be substantially higher in cost than that of a commercial firm, in providing adequate service at competitive prices.

I am heartily in favor of the concept to sell the ACS to a commercial firm for operation and maintenance and control. I think we will receive better service at lower costs than the present arrangement.

Sincerely yours,

HOMER S. THOMPSON.

ANCHORAGE, ALASKA, *May 1, 1966.*

HON. E. L. BARTLETT,
*U.S. Senate Office Building,
Washington, D.C.:*

As the original project author, proponent, and father of the White Alice project and its related services and facilities in Alaska, I wholeheartedly support and

insist that the whole long-line system including ACS be sold to private industry. The original premise upon which the White Alice and its subsequent extensions were built was that it would be built to commercial standards so that ultimately it could be sold to private enterprises. Even the radio frequencies the system uses are commercial and are not Government as I who have lived with it for some 16 years know that it was all, repeat, all built to commercial standards and capable of furnishing commercial quality service. This it has done. The time is now to allow commercial carriers to take over and operate and maintain the system in accordance with commercial practices and procedures. This will conform to President Johnson's policy, that of the Bureau of the Budget, the Department of Defense, and the Air Force. Request this be a matter of record of your hearings.

R. L. JACK JOHNSON.

[Anchorage Daily Times, June 1, 1966]

THE SALE OF ACS: LET'S GET ON WITH IT

Those were pretty heady words spread on the Senate record in Washington supporting a bill to authorize sale of the Alaska Communications System.

There was talk of upgrading service and lowering rates. There was mention that a modern, up-to-the-minute communication system would contribute to vast expansion of the Alaskan economy. There was some pretty firm testimony that taxes paid by a private telephone company would go a long way toward easing the drain on peoples' pocketbooks.

And if that wasn't enough to brighten the day, there was an added touch. No one objected to these views, in fact, everybody—from the Air Force on down—agreed it would be a good thing if the government-owned ACS were put into the hands of a competent, progressive, experienced operator.

All of this is nothing new to Alaskans. Maybe it is to members of the Senate preparedness subcommittee which has the bill of sale before it. But if we've been plowing the field for years, it may be this is fresh ground for some senators.

Hopefully, the men of the Senate won't stand still too long for the same busy signal Alaskans have been getting for years when they called to complain about high rates and poor service.

The inequities which exist in our present service are simply too evident to be ignored. To quote from the Federal Field Committee's analysis of the situation, the present high rates are "a deterrent to economic growth of Alaska" and inhibit the normal flow of communications within the state and to points Outside.

Further, in a terse understatement, the field committee report said the quality of service "is considerably less than fully satisfactory."

The deficiencies of the ACS, of course, are built in by the government red tape under which it operates, and by the out-of-step financial structure which prohibits proper funding and capital investment.

The best solution is a clean, quick cut—as most of the witnesses before the subcommittee agreed. Any further delay only prolongs the ailment, postponing the advantages which await private development of our telephone and telegraph facilities.

The governor's office, in its testimony before the committee, urged caution—fearing perhaps some unknown factor might cause the successful bidder on the system to take out more than it puts in. Such concern is groundless. Any firm wanting to invest in Alaska communications would do so for one reason only—long range profits and investment opportunities through improved service, lower rates, expanded business.

The mayor says he is opposed to any further delay. So are most Alaskans. Let's get on with it.

KETCHIKAN, ALASKA, June 2, 1966.

Senator E. L. BARTLETT,
Senate Office Building,
Washington, D.C.

DEAR SENATOR: This letter is in regards to the Senate hearings on the proposed sale of the Alaska Communication System. Much has been discussed on lowering rates and improving services. A statement was made by Mayor Elmer Rasmuson on Anchorage, "The service is poor and the charges excessive."

Promises have been made by various companies, if the System is sold to them, they will lower the rates. A company must derive some revenue in order to ex-

pand and improve services. ACS must now pay AT&T a lease fee plus a set amount per minute for each call passing over their facilities. ACS must also pay each local utility company an interconnection charge for each call placed from their subscriber telephones. If a tariff investigation were made, it would show it is impossible for ACS to lower the present rates without the full cooperation of all parties mentioned. The interconnection charge paid each utility company is exorbitant. If the System is sold to the Alaska Telephone Association, or any other company, will every utility company in Alaska be willing to accept a lower interconnection charge? The Federal Communication Commission should review these charges and set a realistic figure immediately.

I would like to know how any company can submit a plan for lower rates, or any rates at all, until all of these factors are taken into consideration. A contract would first have to be made with each utility company, for the interconnection charge differs with each company. Also, for any interstate rate, a tariff agreement would have to be negotiated with AT&T. It is simple for a company to say they will charge twenty percent less than the present rates. If the System is sold to this company, and at the end of a trial year or so with these lower rates the company finds it is unable to improve or expand services, or even make operating expenses, Alaska could end up with even higher rates than those presently in effect.

It is easy for Mr. Rasmuson to say the service is poor without backing up his statement. It is true ACS does not have direct distant dialing telex, or many of the more modern refinements found in the south 48. Neither do we have superhighways or many of the luxuries of our sister States. We are a new and growing State and all of this takes time and money.

The main concern so far in this investigation seems to be lowering the telephone rates. ACS offers many services other than telephone. In order to maintain these services some revenue must be derived from the paying end of the business. For instance: A great part of the population in Alaska live in the "bush". ACS provides round the clock service to these people. There is no revenue derived from the telephone and telegraph services provided the outlying areas, but these people are Alaskans and deserve the same service Alaskans in the larger cities have. If the System is sold, with a promised rate reduction in telephone tolls, some services must be cut. The cut will most likely occur in the bush and marine stations.

As far as I can see, the only answer to improve services and lower rates is an industrial funding arrangement. Under an organization of this type all profits would be used for improving services, reducing rates, and upgrading equipment. A private company must use some of this money to satisfy their stockholders. Since it is apparent the Air Force would like to get out of managing the ACS, the System could be put directly under the Dept. of Defense. This would release the 200 military personnel engaged in the commercial phase of ACS. The System could be streamlined and all the military redtape done away with. The present 725 civilian personnel are experienced in operating a communication network for this unique state of Alaska. I am sure if we were given the opportunity, ACS would have lower rates, and improved and expanded service in the not too distant future. If it could be shown the System could operate at a profit and still lower the rates, it could be put up for salt at a later time and Alaska would not be hurt.

Senator, I hope all or parts of this letter can be given to the committee as the testimony of an Alaskan interested in the welfare of our State.

Best Regards.

DELL G. BURCH.

JUNEAU, ALASKA, June 2, 1966.

Hon. E. L. (BOB) BARTLETT,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BARTLETT: Almost eight years ago the United States Senate gave approval to an Alaskan statehood bill. For most Alaskans it was a historic day. Alaskans felt that statehood would end all the injustices of territorial status.

In this year of 1966, we still find ourselves faced with many injustices. One major injustice is the costly telephone rates in the State of Alaska. Also, we are discriminated against in that we cannot enjoy the special \$1.00 long distance telephone rate that citizens in the other states have. Alaskans want and deserve better telephone service. We believe all parties interested in giving telephone

services to Alaska should spell out what they will do for Alaskans. We strongly support reduced telephone rates and better service to Alaska.

Sincerely,

RALPH SWAP.
CLIFFORD SWAP.
EDNA SWAP.

OLSEN & SANDS, ARCHITECTS,
Juneau, Alaska, June 2, 1966.

HON. E. L. BARTLETT,
*United States Senate,
Washington, D.C.*

DEAR SENATOR BARTLETT: We wish to protest the long distance telephone rates between Alaska and the other states. This is a very substantial item to a firm such as ours. We also feel that the \$1.00 evening long distance rates should apply to Alaska.

Sincerely,

BJARNE OLSEN.

KETCHIKAN, ALASKA, *June 9, 1966.*

Senator BARTLETT,
*Congress of the United States of America,
Washington, D.C.*

DEAR SIR: I am a long-distance operator in Ketchikan, Alaska, and I would like to comment on the possibility of selling the Alaska Communications System to the Alaska Telephone Company or to any company on the basis of their remarks. In the course of time, I've heard and learned a few things about the Alaska Telephone Company, our local company, Ketchikan Public Utilities, and the Alaska Communications System.

In the first place, I do not see how Alaska Telephone could possibly give good service, certainly not better, and lower rates. Alaska Communications System gives good service. The small Alaska Telephone offices throughout Alaska generally give poor service from an operator's point of view or anyone else's, for the matter. Just a few would include an information office whose number does not answer or one that was tied up on a maintenance call for hours or an "under-the-weather" information operator. We have encountered trouble with the poor Sitka circuits a countless number of times.

Secondly, the Alaska Communications System is equipped with direct digit dialing equipment and could put it in with the go ahead of Ketchikan Public Utilities and all the other local companies.

In conclusion, I can only say that I cannot understand how Alaska Telephone could make complaints, all things considered.

Sincerely,

(Mrs.) B. LORRAINE JACKSON.

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