



June 28, 2019

Via ECFS

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

Re: GCI Communication Corp. Funding Year 2018 and 2019 Cost Models for Satellite and TERRA Services; *Promoting Telehealth and Telemedicine in Rural America*, WC Docket No. 17-310 – FY 2018 and 2019 Rural Rates

Dear Ms. Dortch,

Pursuant to 47 C.F.R. Section 54.607(b), GCI Communication Corp. (“GCI”) submits the attached cost models to the Wireline Competition Bureau (“Bureau”) for the Rural Healthcare (RHC) Program Funding Year (“FY”) 2018 and 2019 interstate services over GCI’s TERRA and Satellite networks.

This submission includes the following attachments:

- Exhibit A: FY 2018 TERRA cost model
- Exhibit B: FY 2019 TERRA cost model
- Exhibit C: FY 2018 Satellite cost model
- Exhibit D: FY 2019 Satellite cost model
- Exhibit E: Revised TERRA rates for FY 2018
- Exhibit F: Revised TERRA rates for FY 2019
- Exhibit G: Revised Satellite rates for FY 2018
- Exhibit H: Revised Satellite rates for FY 2019

GCI submits the FY 2018 and 2019 TERRA and Satellite cost models to justify GCI’s rural rates in the FY 2018 and 2019 Funding Request Numbers (“FRNs”) provided over GCI’s TERRA and Satellite networks under “Method 3” in Section 54.607(b) of the Federal Communications Commission’s (“FCC” or “Commission”) rules.¹ Under the current interpretations of 54.607(a)

¹ See 47 C.F.R. § 54.607(b) (“If there are no tariffed or publicly available rates for such services in that rural area, or if the carrier reasonably determines that this method for calculating the rural rate is unfair, then the carrier shall submit for the state commission's approval, for intrastate rates, or the Commission's approval, for interstate rates, a cost-based rate for the provision of the service in the most economically efficient, reasonably available manner.”). To the extent that the cost model results require rate reductions in the FY 2018 and 2019 FRNs, GCI also attaches rate reductions by FRN.

and (b) with respect to “Method 1” and “Method 2” as applied by the Bureau to GCI in October 2018, which are currently the subject of GCI’s Application for Review, none of these FRNs could be supported under Method 1 or Method 2. By submitting these cost models under Method 3, however, GCI does not intend to waive and hereby expressly reserves its rights to justify its rural rates for FY 2018 and 2019 using Method 1² pending the outcome of its Application for Review.³

In March 2018, GCI submitted rate justification materials for FY 2017 TERRA and satellite FRNs to USAC that included a TERRA network cost model as additional supporting indicia of the reasonableness of its rates.⁴ From May to September 2018, GCI made several modifications to the TERRA cost model at the request of Bureau staff; submitted a satellite cost model at the request of staff; and provided additional materials and answers to the Bureau’s questions regarding its FY 2017 cost models.⁵ This process culminated in a decision from the Bureau (“Bureau Decision”) in October 10, 2018 that prescribed FY 2017 rural rates using a cost

² See 47 C.F.R. § 54.607(a) (“The rural rate shall be the average of the rates actually being charged to commercial customers, other than health care providers, for identical or similar services provided by the telecommunications carrier providing the service in the rural area in which the health care provider is located.”).

³ Application for Review of GCI Communication Corp., WC Docket No. 17-310 (filed Nov. 9, 2018); Supplement to GCI’s Application for Review, WC Docket No. 17-310 (filed Jan. 29, 2019) (together, “AFR”). In order to exercise its rights in the event the AFR or a final, non-appealable decision supports GCI’s position regarding rural rate justifications, GCI also plans to submit justifications to USAC utilizing GCI’s prior methodology. Indeed, Methods 1 *must* be used to justify GCI’s rural rates except in cases where such methods are not feasible. See 47 C.F.R. §§ 54.607(a) and (b). Thus, if GCI’s arguments raised in its AFR are upheld in a final, non-appealable decision, then the FCC and USAC will have to revisit these Method 3 justifications in order to comply with the RHC Program rules.

⁴ See, e.g., Letter from Jennifer P. Bagg, Counsel for GCI, to USAC, Rural Health Care Program, “GCI Communication Corp. Response to RHC Telecommunications Program – Information Request” (Mar. 30, 2018) (“March 30 Letter”).

⁵ See Letter from John T. Nakahata et al., Counsel for GCI, to Elizabeth Drogula, Deputy Div. Chief, Wireline Comp. Bur. (June 18, 2018) (“June 18, 2018 Letter”); Letter from John T. Nakahata et al., Counsel for GCI, to Elizabeth Drogula, Deputy Div. Chief, Wireline Comp. Bur. (June 21, 2018); Letter from John T. Nakahata et al., Counsel for GCI, to Elizabeth Drogula, Deputy Div. Chief, Wireline Comp. Bur. (June 29, 2018); Letter from Jennifer P. Bagg, Counsel for GCI, to Elizabeth Drogula, Deputy Div. Chief, Wireline Comp. Bur. (July 2, 2018) (“July 2, 2018 Letter”); Email from John Nakahata, Counsel for GCI, to Elizabeth Drogula and Preston Wise (July 31, 2018); Letter from Jennifer P. Bagg, Counsel for GCI, to Elizabeth Drogula, Deputy Div. Chief, Wireline Comp. Bur. (Aug. 21, 2018) (“August 21, 2018 Letter”); Letter from Jennifer P. Bagg, Counsel for GCI, to Elizabeth Drogula, Deputy Div. Chief, Wireline Comp. Bur. (Sept. 10, 2018) (“September 10, 2018 Letter”); Letter from Jennifer P. Bagg, Counsel for GCI, to Elizabeth Drogula, Deputy Div. Chief, Wireline Comp. Bur. (Sept. 17, 2018) (“September 17, 2018 Letter”).

model developed by the Bureau to set rates based on a local exchange carrier (“LEC”) rate of return. The Bureau Decision set forth rural rates for 153 FY 2017 Satellite and TERRA FRNs at rates well below the rural rates requested in GCI’s FRNs.⁶ Subsequently, GCI filed an Application for Review of the Bureau Decision on November 9, 2018, and appealed the USAC-issued funding commitment letters that approved funding at the rates in the Bureau Decision to USAC on December 14, 2018.⁷ After the Bureau issued its decision, USAC denied funding for 16 FRNs included in the Bureau Decision for Maniilaq Association Healthcare Providers (“HCPs”) totaling a loss of over \$16 million in RHC funding.

The attached cost models utilize the same format that the Bureau used to arrive at the reduced rural rates in the Bureau Decision.⁸ GCI made several modifications to the Bureau’s cost model for adjustments required in FY 2018 and 2019:

- First, the working capital calculation uses a seven-month average lag, which assumes that GCI will receive funding for prior funding years on October 1 following the end of the funding year. The longest lag is 14 months (e.g., funding for July 2018 services is due in August 2018, but expected to be paid on October 1, 2019) and the shortest lag is 2 months (e.g., funding for June 2019 service is due in July 2019, but expected to be paid on October 1, 2019). Thus, the average lag is 7 months.
- Second, for the TERRA model, the bandwidth allocator has been adjusted to reflect the actual capacity of priority TERRA services sold to RHC customers each year, while the total maximum theoretical dedicated capacity of the TERRA network remains the same as in FY2017.
- Third, in order to correct an oversight in the Bureau’s FY 2017 rate prescription process,⁹ the cost models include GCI’s actual costs of purchasing the LEC local loop services that are necessary to provision an end-to-end service to RHC customers (i.e., LEC COGs).
- Finally, the models account for USAC’s FY 2017 denial of funding and anticipated FY 2018 and 2019 denials for the 16 Maniilaq Association FRNs and the associated loss of revenue. For FY 2017, because this revenue was included by the Bureau in prescribing

⁶ Letter from Elizabeth Drogula, Deputy Div. Chief, Wireline Comp. Bur., to John Nakahata & Jennifer P. Bagg, Counsel for GCI (Oct. 10, 2018) (“Bureau Decision” or “Decision”).

⁷ See Letter from Jennifer P. Bagg, Counsel for GCI, to Universal Service Administrative Company, Rural Healthcare Appeals (Dec. 14, 2018).

⁸ See Bureau Decision at 1 (“To provide GCI with certainty, the same cost methodology discussed herein for FY 2017 would be applicable to funding requests that seek support for GCI’s services in FY 2018, FY 2019, and later years.”).

⁹ GCI’s FY 2017 models and the Bureau’s models represented the justification for the transport component of GCI’s rates only, and therefore, the Bureau-prescribed FY 2017 rates did not include any recovery for GCI’s total, actual costs to provision an end-to-end service.

GCI's rates, the models include revenue for the Maniilaq FRNs at the reduced rates approved in the Bureau Decision, totaling \$12.9 million, even though these FRNs were not funded. For FY 2018, the models recognize that GCI will provide service for Maniilaq's 16 FRNs for the entire funding year, but that it is unlikely to be paid for the amounts that would have been otherwise covered by RHC (\$16.6 million) and an allowance for such revenues. For FY 2019, the models similarly assume GCI will provide service for the 16 Maniilaq FRNs and not receive any payment for amounts that would otherwise have been covered by RHC support. In addition, FY 2019 also includes a write-off of the \$12.9 million in Maniilaq revenues not received for FY 2017 as a "bad debt."¹⁰ GCI has written off all these Maniilaq support revenues.

In justifying its rates using the cost study discussed herein, GCI does not waive its arguments that the Method 3 approach used by the FCC to establish GCI's rural rates is permissible, nor does GCI waive any right to assert its Methods 1 and 2 methodology pending the outcome of its AFR and to receive additional funding for FYs 2017-2019 based on that methodology. And, in any case, the requests discussed herein were the subject of competitive bidding, which should by itself provide conclusive evidence of reasonable rates. Competitive bidding in Alaska has been vigorous and, since 2013, GCI has not won even a majority of competitive bids. Nonetheless, this response provides a path forward to establishing rural rates for FY 2018 and 2019 under Method 3 pending the outcome of the AFR or a final, non-appealable decision.

Confidentiality Request:

Additionally, pursuant to Sections 0.457 and 0.459 of the FCC's rules, 47 C.F.R. §§ 0.457, 0.459, GCI hereby requests confidential treatment of the materials in this submission. Specifically, GCI requests confidential treatment of this letter ("Letter") and the attached Exhibits A – H (the cost models and rate schedules). GCI requests confidential treatment of these materials (the "Confidential Information"), as well as the withholding of the designated information from any future public inspection.

In support of this request, GCI hereby states as follows:

1. Identification of Specific Information for Which Confidential Treatment Is Sought (Section 0.459(b)(1))

GCI requests confidential treatment of the Letter and the attached Exhibits, together the "Confidential Information."

2. Description of Circumstances Giving Rise to the Submission (Section 0.459(b)(2))

¹⁰ See, e.g., Exhibit A (FY 2018 TERRA cost model) at Tab 1, rows 51-52 and Exhibit B (FY 2019 TERRA cost model) at Tab 1, rows 51-52. In the attached models, for ease of review using the Bureau's cost review format, this is shown as a reduction to revenues rather than as an expense, but that difference does not affect the model results.

GCI is required to disclose the Confidential Information to justify its rural rates under Section 54.607 of the Commission's rules in order to receive RHC program funding.

3. Explanation of the Degree to Which the Information Is Commercial or Financial, or Contains a Trade Secret or Is Privileged (Section 0.459(b)(3))

The information for which GCI seeks confidential treatment contains confidential commercial and financial data that would customarily be guarded from competitors. This is sensitive commercial information that GCI does not otherwise make publicly available. As explained below, public disclosure of these measures could cause competitive commercial harm to GCI.

4. Explanation of the Degree to Which the Information Concerns a Service that Is Subject to Competition (Section 0.459(b)(4))

The letter and exhibits contain detailed internal accounting information regarding GCI's Alaska-based telecommunications services, including the types and duration of services provided to specific customers. The Alaskan wireline, wireless, and broadband market (including Ethernet) is subject to competition.

5. Explanation of How Disclosure of the Information Could Result in Substantial Competitive Harm (Section 0.459(b)(5))

Disclosure of GCI's Confidential Information would cause substantial competitive harm. *First*, disclosure would reveal in detail GCI's HCP customer information, specifically the type and duration of services provided to hundreds of customers. GCI's competitors and customers could use this information to determine GCI's competitive position and associated revenues and thereby gain a competitive advantage. *Second*, disclosure of GCI's Confidential Information would place GCI at a competitive disadvantage, as GCI lacks the same information regarding its competitors.

6. Identification of Any Measures Taken to Prevent Unauthorized Disclosure (Section 0.459(b)(6))

GCI does not distribute the Confidential Information to the public, government officials, competitors, or customers. The documents containing the Confidential Information are labeled "Confidential."

7. Identification of Whether the Information Is Available to the Public and the Extent of Any Previous Disclosure of the Information to Third Parties (Section 0.459(b)(7))

GCI's Confidential Information is and shall remain unavailable to the public. GCI has not previously disclosed to third parties, other than the undersigned counsel, any of the Confidential Information.

8. Justification of Period During Which the Submitting Party Asserts that Material Should Not Be Available for Public Disclosure (Section 0.459(b)(8))

GCI requests that the Confidential Information not be disclosed for 10 years from the date of this request. By that time, the sensitivity of GCI's commercial information will have diminished, as market changes will render it increasingly dated, and would make it difficult for competitors to gauge GCI's current market position and revenues.

Ms. Marlene H. Dortch
June 28, 2019
Page 6 of 7

REDACTED – FOR PUBLIC INSPECTION

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The information contained in this submission provides sufficient justification to begin approving funding for FY 2018 and 2019 TERRA and Satellite FRNs at the rates in the revised rural rate schedules attached hereto.

Should you have further questions or require additional explanation or documentation, please contact me immediately so that I can provide further assistance to resolve this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Bagg".

John T. Nakahata
Jennifer P. Bagg
Counsel to GCI Communication Corp.

cc: Elizabeth Drogula

Attachs.

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EXHIBIT LIST

EXHIBIT A

- FY 2018 TERRA cost model (Redacted – For Public Inspection)

EXHIBIT B

- FY 2019 TERRA cost model (Redacted – For Public Inspection)

EXHIBIT C

- FY 2018 Satellite cost model (Redacted – For Public Inspection)

EXHIBIT D

- FY 2019 Satellite cost model (Redacted – For Public Inspection)

EXHIBIT E

- Revised TERRA rates for 2018 (Redacted – For Public Inspection)

EXHIBIT F

- Revised TERRA rates for 2019 (Redacted – For Public Inspection)

EXHIBIT G

- Revised Satellite rates for 2018 (Redacted – For Public Inspection)

EXHIBIT H

- Revised Satellite rates for 2019 (Redacted – For Public Inspection)

Attachment is redacted in its entirety.