

**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Federal-State Joint Board on	)	WC Docket No. 05-337
Universal Service	)	
	)	
The Merits of Using Auctions to Determine	)	
High-Cost Universal Service Support	)	
	)	

**COMMENTS OF GENERAL COMMUNICATION, INC.**

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## SUMMARY

GCI supports the Joint Board and the Commission in their effort to grapple with the critical issue of cost control for federal high cost support programs. GCI also believes that an auction mechanism – *properly structured and implemented* – could allow the market to continually identify the most efficient provider of supported service, thereby minimizing the amount of universal service needed to support a given area, and reducing the amount of the overall fund. In structuring such an auction, however, the Commission should not, and need not, undermine the 1996 Telecommunications Act’s overall purpose – pro-competitive communications markets. Accordingly, the Commission should not use an auction to decide which provider will serve the market. Instead, an auction should be used to determine the amount of subsidy necessary for an efficient and capable provider to serve the defined market.

Under any auction mechanism, carriers must know what they are bidding for. The Commission must expressly define the supported service and applicable regulatory requirements *before* any auction. GCI believes the supported service should be limited to voice service and that where the market has demonstrated that no subsidy is necessary, none should be provided. Offering subsidies for services now offered without support would distort the market and, by depriving bidders of the benefits of their economies of scope, undermine a central benefit of an auction mechanism.

No auction can succeed so long as existing RLEC regulatory protections are maintained. At minimum, RLEC auction participants must be required to interconnect, exchange traffic, and port telephone numbers with other ETCs. Likewise, no auction can be efficient and fair unless the incumbent – like any other bidder – could lose support.

Incumbents should receive no special protections or advantages based on their status as the incumbent provider. Otherwise auctions will fail in their central purpose – revealing the cost-efficient level of support.

Finally, it must be recognized that, for rate-of-return ILECs, a reverse auction would fundamentally divorce universal service support from the historical revenue requirement of incumbent carriers. This is a long-overdue step, and the Commission should build on it by adopting additional measures that would likewise limit growth of the high cost fund. Specifically, as it considers reverse auctions, the Commission should freeze existing per line support and reduce that support on a year-by-year basis according to a predetermined “efficiency factor.”

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**COMMENTS OF GENERAL COMMUNICATION, INC.**

General Communication, Inc. (“GCI”) submits these comments in response to the Commission’s Public Notice seeking comment on the use of reverse auctions to determine high-cost universal service support.<sup>1</sup>

**Introduction**

GCI is a diversified telecommunications, information services, and cable television provider operating primarily in Alaska. GCI provides long distance service and high-speed and dial-up Internet access throughout Alaska, including dedicated Internet access in many remote parts of the Alaska bush. GCI provides cable services in 36 Alaskan communities and areas, including Anchorage, Fairbanks, Juneau, and the Mat-Su Valley. And GCI offers competitive local telephone service – along with long distance service, cable service, and high-speed and dial-up Internet access – to customers

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<sup>1</sup> *Federal-State Joint Board on Universal Service Seeks Comment On The Merits Of Using Auctions To Determine High-Cost Universal Service Support*, Public Notice, (rel. Aug. 11, 2006).

in Anchorage, Fairbanks and Juneau, competing with the Alaska Communications Systems (“ACS”),<sup>2</sup> the incumbent local exchange carrier (“ILEC”). In addition, GCI has recently been certified to provide local service in additional Alaska communities.<sup>3</sup> GCI serves both the business and residential market, and has been designated an eligible telecommunications carrier (“ETC”) by the Regulatory Commission of Alaska (“RCA”).

GCI supports the Joint Board in its effort to grapple with the critical issue of cost control for federal high cost support programs. GCI also believes that an auction mechanism – *properly structured and implemented* – could allow the market to continually identify the most efficient provider of supported service, thereby minimizing the amount of universal service needed to support a given area, and reducing the amount of the overall fund. In structuring such an auction, however, the Commission should not, and need not, undermine the 1996 Telecommunications Act’s overall purpose – pro-competitive communications markets. Cost-effective provision of universal service can be best accomplished through competition for supported customers that allows carriers to take advantage of the economies of scope created by their ability to offer multiple

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<sup>2</sup> In the areas that GCI currently provides local telephone service, the ILECs are the operating subsidiaries of Alaska Communications Systems Group, Inc., ACS of Anchorage, ACS of Alaska, Inc., and ACS of Fairbanks, Inc. (collectively “ACS”). ACS is a rate-of-return ILEC. With the exception of ACS of Anchorage, it also is designated as a rural telephone company pursuant to 47 U.S.C. § 153(37). Under rulings from the Regulatory Commission of Alaska, the rural exemption no longer limits GCI’s ability to provide local service in Juneau, Fairbanks, the Mat-Su valley and Ketchikan.

<sup>3</sup> In Order U-05-004(1), issued September 23, 2005, the RCA granted GCI the authority to offer competitive local service in the areas currently served by incumbents Cordova Telephone Cooperative, Copper Valley Telephone Cooperative, Inc., Ketchikan Public Utilities, Matanuska Telephone Association and ACS-N, Glacier State. In Order U-05-004(6), issued February 2, 2006, the RCA granted GCI the authority to offer local service in the areas currently served by incumbents Alaska Power and Telephone Company, United Utilities-KUC, and TelAlaska Inc.

services along with supported services over their networks. Competition also enables regulators to ensure that consumers consistently benefit from technology advances.

The Commission should not use an auction to decide which provider will serve the market. Instead, an auction should be used to determine the amount of subsidy necessary for an efficient and capable provider to serve the defined market.

Communications technologies and markets are characterized by rapid technological changes that allow multiple networks to provide competing versions of the same service. No longer limited to fixed voice service, these services include mobile service, high-speed data and, increasingly, video. Accordingly, any auction mechanism that chooses one provider and precludes entry by competitive providers will likely harm the public interest. In the worst case, an auction that grants a single winner the exclusive right to serve a particular area could lock in an inefficient provider of “universal service” even in the face of new, more efficient alternatives. Accordingly, auctions should not be structured to produce sole-provider monopolies. Instead, the auction procedure should allow for more than one carrier to receive the winning per-line support amount to the extent that more than one provider is willing to provide the supported services at the winning bid amount. Moreover, support should be truly portable among carriers to ensure that any auction satisfies the principle of competitive neutrality. Harnessing competitive neutrality, in turn, can reduce stress on the universal service fund by capturing market efficiencies and reducing the necessary level of universal service support.

Under any auction mechanism, carriers must know what they are bidding for. The Commission must expressly define the supported service and the regulatory

requirements (including service area, requirement to extend service to unserved areas, service parameters and quality). GCI believes that the supported service should be limited to voice service.

Broadband is provided today in many high cost areas by entities that do not receive USF support (e.g. by cable and satellite providers). Where the market has demonstrated that no subsidy is necessary, none should be provided. Offering subsidies for services now offered without support would distort the market. Further, subsidizing services unnecessarily will undermine one of the potential benefits of an auction, by depriving bidders of the opportunity and incentive to use the value of potential complementary services (essentially, their economies of scope) to drive down bid amounts.

Furthermore, the Joint Board and the Commission must recognize that no auction mechanism can succeed so long as existing Rural Local Exchange Carrier (“RLEC”) regulatory protections are maintained. Specifically, the Commission must condition the receipt of universal service support on the waiver of any 251(f) rural exemptions or suspensions. At a minimum, RLEC auction participants must be required to interconnect, exchange traffic and port telephone numbers with other ETCs. Similarly, ETC status must be available to all bidders that are willing to accept the obligations specified as part of the auction. In addition, no auction mechanism can be efficient and fair unless the incumbents – like any other bidder – could lose support. Indeed, the incumbents should receive no special protections or advantages based on their status as the incumbent provider. Otherwise, the auction will fail to reveal the cost-efficient level of support.

Finally, it must be recognized that, for rate-of-return ILECs, a reverse auction system would fundamentally divorce universal service support from the historical revenue requirement of incumbent carriers. The existing policy of setting the amount of support based on the wireline incumbent's historical revenue requirement, set in an era of monopoly markets, is long overdue for revision in the current markets with multiple providers and technological platforms. The FCC could take interim steps to curtail the growth in high cost support while the Joint Board and the Commission work to design an effective auction. As an interim cost-control measure, for example, the Commission should freeze existing per line support and reduce that support on a year-by-year basis according to a pre-determined "efficiency factor." This would begin the process of "rightsizing" high cost support, allowing carriers to take advantage of economies of scope, while at the same time protecting rural consumers against any dramatic, disruptive changes in service or rates.

**I. Technology-Driven Competition Benefits Rural Consumers and Can Reduce the Cost of Providing Universal Service.**

GCI's experience shows that competition benefits rural areas, no matter how small or remote they may be. In Anchorage, Fairbanks, and Juneau, GCI's entry has provided consumers with the type of choice envisioned by the 1996 Act, and the competitive pressure GCI has placed on ACS has delivered lower prices, better service packages, and advanced services to consumers.<sup>4</sup> The impending threat of GCI's market entry is having similar effects in even more remote areas of Alaska where GCI has just

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<sup>4</sup> See *Federal-State Joint Board on Universal Service; High-Cost Universal Service Support*, CC Docket 96-45, WC Docket 05-337, Comments of General Communication Inc. at 5-7 (March 27, 2006) ("*Qwest II Remand Comments*").

been authorized to provide service.<sup>5</sup> In Barrow, for example, where GCI had recently acquired an existing cable system and began offering high-speed Internet access through cable modems, the Arctic Slope Telephone Association Cooperative began offering its own high-speed Internet service. The Matanuska Telephone Association and the Ketchikan Public Utility have likewise responded to GCI's anticipated voice market entry in their service areas by upgrading their traditional telecommunications networks to provide video services.

In many of the most remote locations in Alaska, GCI offers high-speed Internet service using broadband platforms integrating cable, satellite, and wireless technologies. GCI now offers high-speed wireless Internet services at affordable prices to 121 villages, and serves 16 more villages by partnering with other providers and using wireless or DSL. As a result of GCI's efforts, advanced services are now available in some of the smallest villages in Alaska. For example, GCI provides broadband service to Akutan, a village located on Akutan Island in the eastern Aleutians with a population of 713. Over fifty percent of the households in Akutan subscribe to GCI's high-speed Internet offering.

This demonstrates that no market is "too small" for competition. The notion that small markets can only be served by a single carrier is an excuse for picking winners, not an economically verified fact. GCI's experience shows that the most significant obstacle to delivering new communications services and new choices to rural areas is not the size of such markets, but rather the need to run the gauntlet of ILEC regulatory protections, from certification to rural exemption, to suspension, to ETC classification. Competition in Alaska, for example, has only been possible where regulatory barriers did not prevent

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<sup>5</sup> *See supra* note 2.

private investment in response to consumer demand.<sup>6</sup> The Alaskan experience thus proves that the competitive process, not regulatory fiat, is the best means to ensure the delivery of universal service at minimum cost to all consumers, even in small rural communities.

In markets of all sizes, competitively neutral universal service mechanisms – mechanisms that distribute the same per line support to all ETCs – are essential to competition, and to preserving the incentives for all providers to reduce costs and become more efficient. Paying all providers the same amount of support neutralizes the market-distorting effects of the relevant subsidy, allowing the universal service program to harness the economic efficiencies of the competitive marketplace. As Dr. David Sappington has explained, symmetric support policies help to avoid excessive support in two ways:

First, they help to ensure that consumers are served by the least-cost supplier, just as they are in competitive markets. When industry costs are minimized, the support required to ensure affordable and reasonably comparable prices also can be minimized. Second, symmetric support policies can provide strong incentives for industry suppliers to minimize their current operating costs and to continually strive to secure even lower operating costs in the future.<sup>7</sup>

Asymmetric support policies, by contrast, entail greater total support, dull carriers' incentives to reduce operating costs, and grant ILECs an unfair competitive advantage.<sup>8</sup>

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<sup>6</sup> GCI has deployed advanced services in many communities where regulatory barriers limit its ability to offer local telecommunications service.

<sup>7</sup> David E.M. Sappington, *Harnessing Competitive Forces To Foster Economical Universal Service*, at 25, filed in CC Docket No. 96-45 attached to the letter of Tina M. Pidgeon, Vice President, Federal Regulatory Affairs, GCI, to Marlene H. Dortch, Secretary, FCC (Dec. 19, 2003).

<sup>8</sup> *Id.* at 27-30.

For these reasons any auction should employ symmetric support. This is particularly critical where providers compete by offering bundles of complementary products. Doing so likewise satisfies the Commission-adopted principle that universal service be competitively neutral. Conforming to this principle is particularly important when parties are competing with bundles of complementary products. Otherwise, one provider (*e.g.*, a DSL provider that receives embedded cost support for building DSL-capable loops) may receive a subsidy for which other providers of the same service are ineligible (*e.g.*, a cable operator providing high-speed data and video). This is inefficient, market distorting, and inconsistent with the Commission adopted principle of competitive neutrality.<sup>9</sup>

Only an auction mechanism that is competitively neutral will fully capture the beneficial effects of competition and new technology by reducing the per line support needed to provide universal service, even in small rural areas. This, in turn, will benefit consumers in the market (by spurring the deployment of new and better services at a lower price) and consumers nationwide (by reducing the size of the fund).

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<sup>9</sup> 47 U.S.C. § 254(b)(7); *Federal-State Joint Board on Universal Service*, Report and Order, 12 FCC Rcd 8776, 8801-03 (¶¶ 46-52) (1997) (“*First Universal Service Report and Order*”) (adding principle of competitive neutrality), *aff’d in part and rev’d in part*, *Texas Office of Pub. Util. Counsel vs. FCC*, 183 F.3d 393 (5th Cir. 1999). Congress is currently considering legislation that would codify this principle. See Communications Opportunity, Promotion, and Enhancement Act of 2006, H.R. 5252, 109th Cong. § 253 (2006) (as reported in Senate).

**II. In This Fast-Changing Technological Environment, Any Auction Mechanism Must Permit Post-Auction Competition.**

The Commission should not adopt a single-winner auction that precludes entry for any significant period of time.<sup>10</sup> Prolonged exclusivity by a single provider would establish an artificial, static marketplace deprived of the benefits of competition, would undermine reasonable comparability, and would be at odds with the statutory scheme for ETCs. Any auction designed to result in an exclusive universal service provider harms the public interest and must be ruled out.

Given the dynamic nature of the communications industry, competitors should not be foreclosed from entering the markets supported by universal service.<sup>11</sup> Rapid technological changes permit the deployment of new modes of competition. And competitors may be able to deliver new, improved services in auctioned areas, even if the auction winner chooses not to do so or does so slowly (out of incompetence, inattention, or a fear of cannibalizing other, existing products). Exclusivity would shield auction winners from these pressures, pressures that drive innovation and delivery of new services, by erecting a significant barrier to entry. To ensure that consumers from rural areas receive the benefits of market incentives, auction winners should not be shielded from these competitive pressures.

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<sup>10</sup> As discussed in Part V, *infra*, any qualified bidder that wins an auction should necessarily be designated an ETC. Otherwise, the ETC process could undermine the auction process.

<sup>11</sup> GCI assumes, of course, that the receipt of universal service support is necessary for a carrier to compete in a high-cost area. While an unsupported carrier could enter the market if it were so efficient that it could compete without the subsidy, such entry would reveal the subsidy as excessive and unnecessary.

Allowing single-winner auctions that preclude competitive entry will harm rural consumers. Such an auction would create an outcome like a price cap system, but without quality requirements or competition. The winner, insulated from competition, would have every incentive to starve the market of investment to maximize profits. Indeed, these cash harvesting incentives would be heightened by the knowledge that the opportunity may be short-lived, as the winner would have no assurance that it would win the next auction. Allowing only one winner to receive universal service support would thus hurt rural consumers by subjecting them to a uniquely non-competitive communications marketplace. By granting support to a sole-provider and preventing entry in between auctions, the auction would freeze the market, depriving rural customers of technological advances and the benefits of competition. This is a flawed outcome from a public policy perspective, and runs directly contrary to the statutory command that rural and urban consumers have access to reasonably comparable telecommunications and information services.<sup>12</sup>

A single-winner auction is also in tension with statutory scheme for ETCs. Section 214(e) states that a state commission or the FCC “shall” designate more than one ETC in non-rural areas and “may” designate more than one ETC in rural areas.<sup>13</sup> Adopting an auction mechanism that does not permit more than one winner would be inconsistent with the statute. While the statute provides some discretion in rural areas, an auction would necessarily determine the sufficient amount of support for rural and non-rural areas alike. The auction would therefore eliminate the concerns underlying the

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<sup>12</sup> 47 U.S.C. § 254(b)(3).

<sup>13</sup> *Id.* § 214(e).

need for discretion and render arbitrary any distinction between auctions in rural and non-rural areas.

Exclusivity, moreover, is not necessary to a successful auction.<sup>14</sup> As Dennis Weller has explained, “[i]f we wish to design a universal service program that is compatible with competition, it hardly seems reasonable to begin with a model that assumes a single universal service provider.”<sup>15</sup> Instead, allowing multiple bidders to win an auction can harness the benefits of “competition for the market” – in which carriers compete for the right to serve as one of a limited number of supported carriers – without foreclosing “competition in the market” – in which several carriers accept universal service obligations and compete to acquire subscribers and the associated support payments.<sup>16</sup> Under Weller’s proposal, bidders within a certain range are accepted and allowed to compete for universal support for a given area, while bidders outside a certain range are excluded for three years to provide some incentive in bidding “for the market.”<sup>17</sup> Nonetheless, even this proposal could have the effect of locking out the benefits of future technological developments during the three-year period between auctions.<sup>18</sup> Furthermore, if the costs of displacing an entrenched provider are high or the

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<sup>14</sup> The FCC’s proposal suggests 10 years between auctions and makes no provision for an auction to be held sooner. This grant of a 10-year monopoly for universal service support undermines competition to the detriment of rural consumers.

<sup>15</sup> D. Weller, *Auctions for Universal Service Obligations*, 23 Telecommunications Policy 645, 654 (1999) (“Weller”).

<sup>16</sup> *Id.*

<sup>17</sup> *Id.* at 667-68.

<sup>18</sup> Weller does account for this effect, proposing that, if an area auction does not change the number or identity of providers, the area should be eligible for rebidding after six months to prevent “lock up.” *Id.* at 671.

.auction rules create bias in favor of the previous winner, even an auction intended to permit multiple winners could result in a sole exclusive provider for perpetuity.

### **III. The FCC Must Set Clear Ground Rules *Before* an Auction.**

In order for the auction to be successful, the bidders must know what they will be expected to provide if they win, over what area, and under what regulatory conditions. Among other things, the Commission must determine: the service area, the requirement to extend service to unserved areas, minimum quality standards for the service, and responsibilities toward other carriers such as access.<sup>19</sup> Each of these items must be clearly specified to ensure that carriers are able to understand all features of the universal service obligation that could influence their bids.

#### **A. The Supported Service Should be Limited to Voice Service.**

The Commission should specify voice service as the supported service. Broadening the scope of supported services would, as a practical matter, preclude auction participation by entities that are not capable of providing all supported services. This, in turn, would undermine the potential benefits of competitive bidding by artificially limiting the pool of potentially eligible providers. To avoid this outcome, and consistent with the current focus of universal service, the Commission should not expand its definition of supported services to include services other than voice.

Moreover, subsidizing high-speed data only when it is provided with voice service creates a bias against the provider that cannot, for technological or regulatory reasons, integrate voice and data. The paradigmatic example is the cable or satellite

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<sup>19</sup> Weller provides an illustrative list of these and other items that the regulator should specify prior to the auction. *Id.* at 662.

company that can provide broadband in a rural area, but cannot provide voice (whether for technical reasons, because of the Section 251(f) rural exemption or suspensions and modifications, or because they simply cannot get an interconnection agreement with the RLEC in a timely manner). GCI, for example, uses its cable plant and unlicensed wireless combined with satellite backhaul to provide advanced services not just in Alaska's cities, but also in 137 communities in the Alaska bush. Although GCI provides telephone service in Anchorage, Fairbanks and Juneau, and has obtained LEC certification for some other areas, GCI is not certified as an ETC in all the areas in which it provides advanced services. If the Commission were to auction universal service support for providing broadband in conjunction with voice in such areas, the RLEC would likely obtain the subsidy and gain unfair advantage in the broadband market. The Commission can avoid this anticompetitive effect by limiting support to voice service.

This is the correct outcome from a policy perspective, as well, as there is no need to target subsidies for capabilities other than voice. Bidders can take into account the revenues that they will generate from complementary services, including mobility or high-speed data (or long distance service), when they bid. Indeed, the economies of scope from providing such services will presumably allow them to bid less than they would on a standalone basis. One of the benefits of an auction mechanism is that it would allow the universal service system to capture some of the value of the opportunity to sell complementary services, reducing the demand on the fund without sacrificing affordability or reasonable comparability.

**B. The Commission Must Specify Obligations to Extend Service and Explain How They Will be Shared Among ETCs.**

All bidders must be allowed to meet any obligations to extend service (such as Carrier of Last Resort (“COLR”) requirements). These obligations need not, and should not, rest on incumbents alone. For example, in Alaska GCI has offered to share COLR obligations where it reaches certain levels of market share and of self-deployed facilities, and Alaska law now specifically permits sharing of COLR responsibilities.<sup>20</sup> It is important to have some default mechanism under which these obligations would be shared by the “winning” ETCs in place before any auction. Because this is a cost that must be taken into account, the obligation must be specified with sufficient detail so that bidders can determine the cost of compliance in advance of their bids.

**C. Auctions Should Determine Both State and Federal Support.**

The auction process should include both federal and state universal service support. Otherwise, an ILEC losing support through the federal auction process could be compensated by offsetting state support. In addition, the availability of state support outside the federal auction process would bias the auction itself, as carriers could leverage state support in submitting federal bids.

The Commission should therefore condition the availability of federal support on state reform of existing intrastate mechanisms. The Commission has broad authority to condition federal support on States’ adherence to federal policies. *See Qwest Corp. v. FCC*, 258 F.3d 1191, 1203-04 (10th Cir. 2001) (holding that the Commission is “obligated to create some inducement . . . for the states to assist in implementing the

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<sup>20</sup> To satisfy Alaska COLR requirements, carriers must perform line extensions in accordance with their line extension tariffs.

goals of universal service”). Before permitting auctions of federal support, the Commission must ensure that state support policies do not undermine the federal auction mechanism.

#### **IV. Any Winning Bidders Must Automatically be Designated ETCs.**

Any qualified bidder that wins an auction should be designated an ETC. The FCC must define the obligations of the auction winner prior to the auction,<sup>21</sup> and as discussed above, those requirements should include the obligations to provide service, and the conditions under which service must be extended. Once those requirements are set, it would be duplicative and frustrate the auction to have a separate ETC designation process. Because the process of competitive bidding will reveal whether the market can support and maintain multiple providers – indeed, that is one of the benefits of the auction – there will be no need for regulators to make such determinations in the ETC designation process. To the extent that there are issues of a provider’s character or financial qualifications, those can and should be addressed in the bid qualification requirements. Any qualified bidder should thus be eligible for ETC status and the auction winners should be designated as ETCs automatically. Similarly, once the Commission implements auctions, it should abolish separate ETC proceedings.

#### **V. Auction Participants Must Interconnect and Otherwise Permit Competition.**

No auction mechanism can succeed so long as existing RLEC regulatory protections are maintained. As a result, recipients of any auctioned universal service support must waive any Section 251(f) rural exemptions or suspensions. In other words, the RLEC must forgo USF entirely if it wishes to take advantage of Section 251(f).

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<sup>21</sup> See generally, *Weller* at 662-63.

Multiple carriers can provide service in an area only if, at a minimum, they will interconnect (directly where that is requested), exchange traffic, and port telephone numbers. The RLEC must not be allowed to frustrate the auction by refusing to interconnect, exchange traffic, and port telephone numbers with auction winners, particularly if there are multiple auction winners that include the RLEC and an entrant. For an auction mechanism to work, therefore, RLECs cannot be permitted to suspend or modify these obligations.

**VI. Incumbents Must be Permitted to Lose Auctions, and Should Not Receive Special Protections and Advantages.**

No auction mechanism can be efficient and fair unless it applies evenly to all qualified providers. In this context, it must be expressly acknowledged and permitted that the amount of support may be less than what some providers bid. If the incumbent loses the auction, it should not be entitled to extra support, unless that support is also available to other bidders. Similarly, an incumbent should not be given any preference in bidding. Finally, incumbents must also be capable of losing any auction. In other words, if any provider may be excluded as a result of an auction, incumbents must also be capable of being excluded. Otherwise, the incumbents will have an overwhelming advantage in bidding, and have no incentive to bid low. Other carriers' bids would also be skewed by their efforts to offset these biases. As a result, incumbent preferences would necessarily undermine the chief benefits of an auction by distorting, rather than revealing, information about carriers' costs and the efficient level of subsidy.

**VII. As an Interim Cost-Control Device While it Considers Auctions, The Joint Board Should Freeze Per Line Support, Distribute All Support on a Per Line Basis and Gradually Reduce Per Line USF Support for All Carriers.**

To control costs while considering how to implement reverse auctions, the Joint Board and Commission should once and for all sever the link between high cost support and rate-of-return regulation. A reverse auction system of universal service support would fundamentally divorce universal service support for rate-of-return ILECs from their historical revenue requirement. GCI believes this is long overdue. The Joint Board and Commission should now implement a true system of portable support in which all carriers receive support on a per line basis for the customers they actually serve.

While the Joint Board and Commission are working on whether and, if so, how to implement a reverse auction mechanism, there is no reason not to continue distributing ILEC support on a lump sum basis irrespective of lines served. Instead, while it considers auctions, the Commission should move all universal service support to a per line distribution.

Per line support should be fully portable; there is no reason to pay providers for lines to customers that they no longer serve. Moreover, the Joint Board and Commission should also freeze the existing per line support rates. Consumer rates for universal service are already reasonably comparable and affordable across the country and there is no reason why support must continue to increase.<sup>22</sup> If there is a particular situation where rates are already high, and a freeze could result in rates becoming neither comparable nor affordable, it can be addressed by the Commission on a case-by-case basis. This is

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<sup>22</sup> See *Qwest II Remand Comments* at 25-31.

especially true now that many RLECs are providing services beyond traditional voice, and thus receiving multiple revenue streams from their legacy plants.<sup>23</sup>

Furthermore, once established, this frozen per line amount should be reduced each year by an efficiency factor. This would push carriers to become more efficient thereby eliminating subsidies that are not necessary to maintain affordable and reasonably comparable rates. Such an interim measure is easy to implement and administer. More importantly, it would allow the Commission to begin the process of “rightsizing” high-cost support without exposing rural consumers to any dramatic, disruptive changes in service or rates. The per line support amounts that are set could then be used as reserve prices for any auction system, further assuring that the chosen auction mechanism will make high-cost funding more, rather than less, efficient.

Respectfully submitted,

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<sup>23</sup> See National Telecommunications Cooperative Association 2006 Broadband/Internet Availability Survey Report (Aug. 2006).