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November 14, 2007

VIA ELECTRONIC FILING

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

Re: *Federal-State Joint Board on Universal Service, High Cost Universal Service Support, WC Docket No. 05-337; Federal-State Joint Board on Universal Service, CC Docket No. 96-45*

Dear Ms. Dortch:

ACS Wireless, Inc. ("ACSW") files this letter to respond to the recent exchange of letters between Independent Telephone and Telecommunications Alliance ("ITTA")[1] and General Communication, Inc. ("GCI")[2] concerning GCI's proposal to exclude certain service provided on tribal lands and in Alaska Native Regions ("covered locations") from the proposed competitive eligible telecommunications carrier ("CETC") Universal Service Fund ("USF") cap.[3]

In response to ITTA, GCI cites a number of public policy benefits to its proposal for Alaska – that if a cap is in place, adopting its exemption will prevent harm to vulnerable, typically unserved and underserved areas that are most in need of broadband deployment.[4] These are certainly important goals. GCI omits, though, that its proposal is designed with such high penetration benchmarks, that, as described below, most Alaska CETCs will not be able to afford the extraordinarily costly satellite transport needed to carry traffic from remote villages to the nearest Internet peering location, Seattle. Only two Alaska interexchange carriers with their own extensive Alaska satellite facilities in place, GCI and AT&T, will have the "owner

[1] Letter from Joshua Seidemann, Director, Regulatory Policy, ITTA, to Honorable Ray Baum and Honorable Deborah Taylor Tate, CC Docket No. 96-45, WC Docket No. 05-337 (filed October 25, 2007) ("ITTA Letter").

[2] Letter from Tina Pidgeon, Vice President, Federal Regulatory Affairs, GCI, to Marlene H. Dortch, Secretary, FCC, CC Docket No. 96-45, WC Docket No. 05-337 (filed November 2, 2007) ("GCI November 2, 2007 Letter").

[3] Letter from Tina Pidgeon, Vice President, Federal Regulatory Affairs, GCI, to Marlene H. Dortch, Secretary, FCC, CC Docket No. 96-45 (filed May 31, 2007) ("GCI May 31, 2007 Letter").

[4] GCI November 2, 2007 Letter at 1-2.

economics"[5] needed to take advantage of the program. And only one, GCI, has demonstrated the interest in and proven success at developing its Alaska networks, in large measure, via federal USF subsidies, and has deployed the full complement of interexchange, voice and data services in rural Alaska. GCI's proposed special USF program may achieve a public purpose, but in a way that clearly benefits that provider differentially from all other CETCs serving Alaska.

Moreover, GCI could use the program not on a targeted basis, but for service throughout Alaska. The Alaska Native Claims Settlement Act divided the entire State of Alaska into different "Alaska Native Regions."[6] Consequently, all wireless subscribers in the state belong to one region or another, including subscribers in Anchorage (Cook Inlet Region), Fairbanks (Doyon Region), and Juneau (Sealaska Region). Alaska's largest cities, and all Alaska ILECs receive USF support.[7] It appears that GCI has proposed not an "Alaska" carve-out based on unique Alaska service characteristics, but rather, a carve-out that will help finance its own statewide broadband build-out.

If the Commission finds that the goals associated with an Alaska cap exception are compelling, a better alternative is to open the program in a more pro-competitive manner. The single most important impediment by far to rural broadband deployment in Bush Alaska is the cost of Internet data transport from remote villages to the nearest Internet peering location, Seattle. The Commission can achieve broadband deployment in the most rural reaches of Alaska, in a manner consistent with true competition, by providing USF support for the extraordinarily high cost of satellite transmission in USF cost recovery. It can adopt a support cap or other means to make this *bona fide* Alaska solution cost no more than GCI's proposed CETC cap exception.

GCI's Program Is Designed for Carriers with Existing Alaska Satellite Networks

GCI has designed a rural broadband deployment program that will uniquely benefit the two interexchange carriers with widespread existing Bush Alaska satellite networks. To qualify for uncapped support, a provider serving a covered location must offer broadband service over its own facilities to 50% or more of the households throughout the covered location within a

[5] "Owner economics" means having the critical mass of facilities, footprint, services and business plans in place to make the incremental cost of offering the new product or services economically viable. IXCs with owner economics can and will continue to charge premium prices to purchasers of satellite transport capacity, virtually eliminating any opportunity for an alternative provider to compete.

[6] *See* Pub. L. 92-203 § 7(a) (codified at 43 U.S.C. § 1606(a)(2005)) ("For purposes of this Act, the State of Alaska shall be divided by the Secretary within one year…into twelve geographic regions…").

[7] Even service in Anchorage is covered by the High Cost Fund through ICLS. The Commission's order implementing the Tribal Lands Lifeline program, referenced in an ex parte GCI filed on November 8, 2007, defined "reservations" to include Alaska Native Regions as defined by the Alaska Native Claims Settlement Act. *In the Matter of Federal-State Board on Universal Service; Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas*, 15 FCC Rcd 12208 ¶ 18 (2000). ANCSA divided the State of Alaska into 12 geographic regions – constituting the entire state. *See* Pub. L. 92-203 § 7(a), 43 U.S.C. § 1606(a), (2005).

study area.[8] Additionally, it must commit to increase coverage to at least 80% of the households over the next three years to maintain eligibility for full support.[9]

In Alaska, these benchmarks will strictly limit eligibility to a provider whose owner economics make such rural broadband wireless deployment economically feasible. Presumably, by "broadband service," GCI means broadband Internet access, a service that connects rural subscribers to the Internet world-wide. To offer broadband service in rural Alaska, the provider generally must transport the traffic from a rural village location through satellite facilities to a central switching location such as Anchorage, Fairbanks or Juneau. From there, the traffic must be transported through interexchange facilities to the nearest Internet peering location, Seattle.

Consequently, to make a reasonable business case for wireless broadband service in tiny, isolated remote communities, a provider should already have interexchange facilities economically available, including Bush earth stations and leased satellite transponder facilities, as well as long haul transport to Seattle. Moreover, the provider should already be offering service to the rural communities over the interexchange facilities, so that it can reduce its costs through economies of scale. In other words, a totally new provider could not afford to lease satellite transponders and earth station facilities simply to transport wireless broadband traffic from a group of small, sparsely settled villages to the Seattle Internet peering location. The higher the penetration levels required for the program, the more it will cost to carry traffic from remote villages. Providers will have to use bigger and more costly "pipes" to transport traffic to Seattle (*e.g.*, a DS-1 or DS-3, instead of a more modestly priced 56 kbps channels).

Certainly, ACSW (and other CETCs like it) would not be able to afford the interexchange costs of wireless broadband service to rural villages without some other means of support. For example, it would cost $12,000-$13,000 per month per village in T-1 transport costs alone (including satellite transponder costs) for ACSW to offer broadband Internet access service in the ACS of the Northland, Inc. Sitka study area ("ACS-N Sitka"). The ACS-N Sitka study area includes 54 remote non-contiguous villages of very small population.[10] For these 54 villages it would cost ACSW approximately $650,000 - $700,000 per month just to provide interexchange transport for wireless broadband Internet access. Retail revenues from broadband Internet services offered in these small villages plus the ILEC's portable uncapped support would not come even close to covering these extremely high provisioning costs.

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[8] GCI May 31, 2007 Letter at 2.

[9] *Id.*

[10] ACS-N's Sitka study area is extremely large, encompassing 54 tiny communities (not including Sitka) dispersed throughout Southeast and Southcentral Alaska, and the Bering Sea. These villages include Akhiok (pop. 44), False Pass (pop. 54), Nondalton (pop. 196), Port Graham (pop. 136), Egegik (pop. 76), Karluk (pop. 27), Kasaan (pop. 59), Northway (pop. 79), St. George in the Bering Sea (pop. 120), and Tenakee Springs (pop. 109). *See Community Database Online*, available at http://www.commerce.state.ak.us/dca/commdb/CF_BLOCK.cfm (last viewed November 9, 2007). Population statistics derive from the 2006 state demographer estimates.

The Program is Strongly Suited for GCI

In Alaska, GCI is one of only two carriers that have extensive statewide long distance facilities,[11] including Bush earth stations[12] and other readily available long-term leased or owned satellite transponder facilities.[13] GCI's program is strongly suited to GCI, though, and does not fit well AT&T's business model to date in Alaska. Only GCI has a history of integrating multiple services to rural Alaska and leveraging USF support to develop rural Alaska facilities.

AT&T's affiliate in Alaska, AT&T Alascom, has not pushed to offer the full bundle of facilities-based services in the Bush and has not shown any interest in using federal USF support broadly to expand its Alaska network into remote local service markets. Although AT&T Alascom is an authorized CLEC in Alaska's urban markets, it has opted to provide service exclusively via wholesale resale. As a non-facilities-based CLEC, AT&T does not qualify as a CETC and is not eligible for portable USF support. Moreover, in rural Alaska, AT&T Alascom operates solely as an IXC and offers no local, Internet or wireless services today. While AT&T has recently proposed to acquire the Dobson properties nationwide, including in Alaska, its prior business plan suggests that it is not as likely a candidate to deploy a rural wireless broadband network across Alaska in order to access uncapped USF support. Even if it did, GCI's program would be used, at best, by a very small subset of two carriers.

In contrast, GCI's "owner economics" make subsidized rural wireless broadband deployment attractive to GCI. GCI has deployed its own rural earth station network, and has used Schools and Libraries and/or Rural Health Care USF funds to develop its rural long distance infrastructure. GCI has clearly received the most Schools and Libraries support of any ETC in Alaska. It already provides broadband to over 150 rural sites[14] and is in the process of

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[11] GCI has a 45% share of the Alaska intrastate IXC market. "About GCI" at www.gci.com/about/coover.htm. ("Company Overview"). GCI and AT&T Alascom largely divide this market.

[12] When it first received APUC approved to deploy its own rural facilities, GCI constructed satellite earth stations in 56 rural locations. Company Overview at 2. GCI also has over 50 Ku band School Access and Private Network sites in rural locations. *See* "GCI: A unique communication company in a unique market," p. 4, available at www.gci.com/investors/investorbroch.pdf ("GCI Investor Brochure") at 4-5. GCI owns two interstate fiber optic cable systems, the Alaska United Fiber Optic Cable System which links Anchorage, Fairbanks, and Juneau to Seattle, and a 1544 mile capable connecting Seward Alaska and Warrenton, Oregon. Further, it owns an 800 mile fiber optic cable that follows the TransAlaska pipeline. Company Overview at 2.

[13] In 1995, GCI entered into a lease/purchase transaction with Hughes Communication to secure sufficient C- Band and Ku -band satellite coverage for the entire state and in 2000, it acquired capacity on the Galaxy Xr satellite, which will meet its needs for the next 12 years. "Company Overview." at 2-3. Further, in 2006, GCI entered into a lease with Intelsat, Ltd. to replace existing transponder capacity on Intelsat's Galaxy 10R satellite when it goes out of commission. GCI's satellite capacity will continue for at least the next 14 years. GCI, Inc., Form 10-Q, Securities and Exchange Commission, at 15 (filed Mar. 31, 2007) <http://sec.gov/archives/edgar/data/75679/000007567907000016/incform10q033107.htm>.

[14] *See* Letter from Tina Pidgeon, Vice President, Federal Regulatory Affairs, GCI, to Commissioner Deborah Taylor Tate, Chair, Federal-State Joint Board on Universal Service and Commissioner Ray Baum, State Chair, Federal State-Joint Board on Universal Service, CC Docket No. 96-45 (filed April 3, 2007), at 2 n. 2 ("GCI April 3, 2007 Letter").

acquiring Unicom's rural network.[15] Overall, GCI is the state's largest Internet service provider, delivering services via dial-up, cable modem, DSL and dedicated Internet access service and distance education services.[16] It uses its network of rural earth stations comprehensively to deliver digital high-speed communication for voice, data, distance education and telemedicine applications.[17] GCI's proposal will allow it to further leverage facilities it has already built in part with federal support to gain access to even more USF funds for commercial operations. The effect will be to concentrate even more market power in the hands of GCI and to make it even more difficult for other providers to enter these markets and bring the benefits of competition to consumers.

ACSW understands the unique and challenging nature of providing telecommunications services in Alaska. It continues to be a strong advocate of developing national policies that acknowledge Alaska's unique service characteristics. However, it seems somewhat disingenuous to propose a national policy that, for its Alaska application, is designed by a single carrier to differentially benefit itself, or at best, a small subset of two carriers. A better public policy alternative is to adopt an Alaskan program based on unique service characteristics of Alaska networks and set reasonable limits for the program so that its costs are contained. In particular, USF support for high cost satellite transport will not only encourage the deployment of broadband services to unserved and underserved areas, but will allow multiple providers into the process and bring the additional benefits of competition into the mix. If the FCC caps CETC support, but grants GCI's proposal, GCI (and/or its affiliates) could receive full funding in locations throughout the state, while other Alaska CETCs' funding will decrease, limiting or eliminating the likelihood that these CETCs will expand into new markets.

Sincerely,

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[15] *See* In the Matter of Application of GCI Communication, Corp. for Authority to Acquire a Controlling Interest in United Utilities, United–KUC, Inc. and Unicom, Inc., Regulatory Commission of Alaska, U-07-140 (filed Oct. 16, 2007). In Order No. 1, dated November 7, 2007, the Regulatory Commission of Alaska ("RCA"), among other things, asked GCI to address the competitive impacts of its application on local exchange competition in the regional hub location of Bethel, Alaska (at p. 3).

[16] GCI provides Internet service to more than half of the schools in Alaska using Ku-band satellite earth stations. Internet access is also provided statewide to large commercial operations, as well as the State of Alaska. Wholesale services are provided to other ISPs in the state. *See* "GCI Investor Brochure" at 6.

[17] *Id*. at 5.

cc: Chairman Kevin J. Martin
Commissioner Michael J. Copps
Commissioner Jonathan Adelstein
Commissioner Deborah Taylor Tate
Commissioner Robert M. McDowell
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