



SouthernLINC[®]

Wireless

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Improving the Efficiency of Universal Service

CC Docket No. 96-45
WC Docket No. 05-337
June 2008

Elimination of the Identical Support Rule Has Not Been Justified

- The FCC has not demonstrated that near-term growth threatens viability of the high cost fund.
- Elimination of the identical support rule would not address the issues the FCC claims has led to explosive growth.
- Nothing relevant has changed since the FCC rejected the proposed alternatives to the identical support rule.
- The FCC should improve efficiency without eliminating the identical support rule.



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The FCC Should Take Other Steps To Improve Efficiency

- Support should be made available solely where needed and phased out once it is no longer needed.
 - ETCs should be limited to receiving support for only two lines for each billing address.
- Full support should be available until the area is served by the ILEC and three competitive ETCs.
- Entry of the fourth ETC would trigger the phasing out of support to all ETCs in the area.
 - Tier I CMRS providers: Two years after entry of fourth ETC.
 - Tier II CMRS providers: Four years after entry of fourth ETC.
 - ILEC and other ETCs: Six years after entry of fourth ETC.
- The FCC should create a safety valve procedure so support would continue to be available to any ILEC or ETC if necessary to further the goals of universal service.



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Reverse Auctions Are the Best Alternative To the Identical Support Rule

- If the FCC eliminates the identical support rule, it should adopt the SouthernLINC Wireless reverse auction proposal (the “Proposal”).
- The Proposal would permit universal service support to be efficiently distributed in a technologically and competitively neutral manner that would not endanger necessary funding for carriers of last resort, including rural ILECs.



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The FCC Would Define Supported Service Packages

- Under the Proposal, the FCC would define two types of supported service packages:
 - a “carrier-of-last-resort” (“CLR”) package and
 - a “non-carrier-of-last-resort” (“NCLR”) package.
- With respect to each service package, the Commission would define:
 - the characteristics and features of the supported service (*e.g.*, basic voice);
 - the duties of the service provider with respect to the supported service;
 - the maximum permissible retail price for the supported service; and
 - the number of NCLR packages to be auctioned in each auction area.
 - Only one CLR package would be auctioned in each auction area.
- The definitions would not refer to any specific type of technology.



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Service Providers Would Bid On Supported Service Packages

- Within each auction area, service providers would bid upon the lowest amount of support they would need to provide the NCLR or CLR service package.
- Winners would receive their final bid support amount for each CLR or NCLR service package they sell at the full retail price for the package, which would prevent winners from giving extra lines away merely to receive additional support.
- Winners could compete with other service providers by adding features to, or lowering retail prices for, NCLR or CLR packages without affecting support.
- The reserve amount for the auction would be current support levels, and bidding could take the support level down to zero or close to zero.
- The winning bid for CLR package would likely be higher than the winning bids for NCLR packages in light of the additional carrier of last resort obligations.



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The First of the Two Auction Rounds is the “Clock” Round

- In the “clock” round, auction participants would bid upon either the CLR or one of the NCLR packages in each individual auction area.
- Bidding would start at current support levels, and would continue downward until supply equals or exceeds demand for all available CLR and NCLR packages.
- If demand exceeds supply of a package (*e.g.*, three carriers want two NCLR packages), the auctioneer lowers the available support for the item.
- The lowest or “winning” bids from the first round of the auction would set the “reserve” prices for the second round of the auction.



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The Second of the Two Auction Rounds is the “Proxy” Round

- In the second or “proxy” round, auction participants submit bids for bundles of packages across multiple auction areas at a specified support amount to computer proxy agents.
- The computer proxy agent iteratively submits bundled bids with associated support prices on behalf of the bidder. The agents select which packages to submit based on the highest profit opportunities for their bidders, given the bidder’s stated minimum necessary support amounts.
- After each submission by agents, winners are provisionally determined by the auctioneer from the pool of bids from all preceding rounds on the basis of which total bid package would result in the lowest support expenditure.
- The agents for the other bidders who were not provisional winners then have a chance to submit their next most profitable packages.
- This process continues until agents have no new bids to submit. The last provisional winners are then made final winners.



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The Clock-Proxy Auction Offers Many Advantages Over Other Proposals

- The clock-proxy auction proposal of SouthernLINC Wireless is the only auction proposal that is both (1) consistent with the Act and the Commission's USF regulations and policies, and (2) likely to result in the smallest fund necessary to achieve the goals of the Act.
- The "clock" phase of the auction is a simple way for bidders to discover how others value each service package.
- The "proxy" round facilitates aggressive bidding because agents can bid on bundled areas rather than individual areas, which eliminates the risk that a bidder could win an incomplete set of auction regions that it values less than a contiguous service area of its choice.
- The anonymity of the proxy round allows bidders to break any tacitly or explicitly collusive agreements that were made in the clock round of the auction.
- The price discovery in the clock round coupled with the package bidding in the proxy round facilitates allocation of support at the lowest possible amount by the government to bidders who value them the most.



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Summary

The identical support rule should be maintained.

The FCC should take other steps to improve efficiency.

If the FCC eliminates the identical support rule, it should adopt the SouthernLINC Wireless reverse auction proposal.



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