



of last resort and to one wireline broadband provider of last resort in appropriate high-cost rural service areas.

The Blooston Rural Carriers do not share the Commission's optimism regarding the benefits and impacts, particularly those in the long run, of largely untested reverse auctions. Even in pure "green field" situations, reverse auctions are susceptible to construction and equipment quality short-cuts and other gaming strategies that can result in deceptively low "winning bids." Lowball bids are likely to require larger disbursements of high-cost support in the long term to replace inferior facilities at early dates or otherwise to revise significantly the service and/or business proposals of the winning bidders. In non-green field situations, there are a host of additional issues that have never been satisfactorily addressed or resolved, including (but not limited to) equitable comparison and evaluation of the differing cost and service characteristics of different technologies, stranding of investment required under previous regulatory regimes, rights of creditors and repayments of outstanding loans, and the treatment of carrier of last resort obligations and costs.

Even if the Commission determines to ignore these general concerns and to experiment with a reverse auction for the proposed Mobility Fund, the Blooston Rural Carriers have three specific concerns with the proposed design of the Mobility Fund reverse auction. First, because of the substantial existing and potential funding demands upon Universal Service Fund ("USF") programs, the Commission should expressly restrict participation in the Mobility Fund reverse auction to bidders whose proposed third generation ("3G") mobile wireless broadband networks and facilities are capable of ready, efficient and economical conversion to fourth generation ("4G") mobile wireless broadband networks. Second, the Mobility Fund reverse auction procedures must give service providers of all sizes, including rural telephone companies and

other small businesses, a fair and equitable opportunity to receive support, and not employ the proposed “lowest per-unit bids across all areas” procedure that unduly and inequitably favors large carriers. Third, successful bidders in Mobility Fund reverse auctions should be required to certify that they will not participate in exclusive arrangements for the design and procurement of handsets and other equipment.

**I.**  
**Supported 3G Facilities Must Be**  
**Readily Convertible to 4G Networks**

The Commission has asked whether supported 3G networks should be required to present a path to 4G service. *NPRM*, par. 37. The Blooston Rural Carriers believe that participants in Mobility Fund reverse auctions must be required to propose and receive support only for 3G facilities and equipment that are capable of ready, efficient and economic conversion to 4G service.

The *NPRM* indicates that the Commission will not require supported parties to use any particular technology to provide service. *Id.* Rather, the Commission proposes only that the data rates of supported networks be comparable to those provided by networks using the basic functionality of the 3G wireless data transmission standards known as High Speed Packet Access (“HSPA”) and Evolution – Data Optimized (“EV-DO”). *Id.*

It is the information and belief of the Blooston Rural Carriers that some 3G facilities and equipment can be readily and economically converted to 4G networks, but that others cannot. It appears that some of the non-convertible 3G facilities and equipment would have to be extensively reconfigured at great expense to provide 4G services, and that others might need to be replaced in substantial part.

As this Commission is well aware, funding for the proposed Mobility Fund and for other existing and contemplated USF programs is subject to considerable and increasing needs as the current mixed-use public network evolves more and more toward a National Broadband Network. Small wireline and wireless carriers need sufficient USF support to continue providing quality and affordable voice and data services in high-cost rural areas, and are likely to need increased support to continue upgrading their networks to deploy broadband facilities and services at speeds that are reasonably comparable to those available in urban areas. Increased USF support is also likely to be needed to provide effective incentives for mid-sized and large wireline and wireless carriers to deploy new or higher-speed broadband facilities and services in those portions of their rural service areas where they have not previously done so. Moreover, in addition to the underlying infrastructure deployment programs, USF support is utilized to encourage and enable low income households to adopt and utilize telecommunications services. Whereas the existing Lifeline and Link-Up programs for voice services have grown explosively during the current recession, it is likely that this surge will accelerate significantly if and when such low income programs are expanded to encompass more expensive broadband services.

At a time when there are substantial competing needs for USF funding, it would be unreasonably inefficient and wasteful for the proposed Mobility Fund to support capital expenditures for non-convertible 3G facilities and equipment when superseding 4G service roll-outs are already being advertised in urban areas. Scarce USF funds should not be used to deploy non-convertible 3G facilities that are likely to become outmoded and to need to be replaced by 4G networks within the immediately foreseeable future. It will be far more efficient and less expensive in the longer run to require the Mobility Fund to support only 3G facilities and

equipment that can be readily and economically converted to 4G services, or to postpone its operations for a year or two until 4G facilities and equipment become readily available.

As 4G networks are deployed, non-convertible 3G equipment is likely to decline rapidly in value and price vis-à-vis both convertible 3G equipment and new 4G equipment. This phenomenon, plus the “race to the bottom” vagaries of reverse auctions, could result in substantial misdirection and waste of Mobility Fund dollars. Specifically, if use of the cheaper non-convertible 3G equipment provides bidders with significant “per-unit” cost advantages over potential competitors proposing to employ convertible 3G equipment, the reverse auction process could result in the deployment of substantial non-convertible 3G facilities that will provide the affected rural areas with increasingly sub-par 3G mobile broadband service until they can be scrapped and replaced with 4G facilities at a much higher overall cost than would have been incurred if convertible 3G facilities had been installed initially.

The Blooston Rural Carriers believe that the convertible 3G approach or the alternative wait-for-4G approach will permit affected rural areas to be served by the construction of one ultimate wireless broadband network rather than an interim one and a superseding one, and consequently will be considerably less expensive in the long run. Therefore, the Commission not only should require supported 3G networks to present a path to 4G service, but also should require all supported 3G equipment and facilities to be readily, efficiently and economically convertible to 4G capability.

## **II**

### **The Mobility Fund Must Be Distributed In An Equitable Manner That Includes Small Entities**

Section 309(j)(3) of the Communications Act requires Commission spectrum auctions to be designed and conducted, *inter alia*, in a manner to “promot[e] economic opportunity and

competition and ensur[e] that new and innovative technologies are readily accessible to the American people by avoiding excessive concentration of licenses and by disseminating licenses among a variety of applicants, including small businesses [and] rural telephone companies.” 47 U.S.C. §309(j)(2).

If wireless spectrum licenses must be auctioned and distributed in a manner that includes the dissemination of reasonable numbers of such licenses to rural telephone companies and other small businesses, then the Mobility Fund support that will permit the construction of wireless broadband networks on this spectrum in unserved, high-cost rural areas must also be distributed in a manner that provides equitable amounts of such support to rural telephone companies and other small businesses. Unless small entities that purchase spectrum at auction can obtain Mobility Fund support to help construct wireless broadband facilities in unserved and high-cost portions of their license areas, the Section 309(j)(2) promises of economic opportunity, reduced concentration and increased small business participation will not be realized.

The Blooston Rural Carriers are particularly concerned that the specific “lowest per-unit bids across all areas” selection mechanism proposed in the NPRM for determining winning bidders in the Mobility Fund reverse auction will decisively favor large carriers over smaller entities. AT&T, Verizon, Sprint Nextel and other large national and regional wireless carriers have the size and purchasing power to negotiate the most favorable and least expensive per-unit terms possible for construction contracts and bulk equipment purchases. In addition, these large carriers enjoy substantial economies of scale that can further reduce the per-unit costs of their planning, overhead and other capital expenditures. As if these advantages were not sufficiently decisive, the “across all areas” portion of the proposed “lowest per-unit bids across all areas” mechanism will allow large carriers to aggregate their service areas and package tracts in

virtually any manner they wish so that they can maximize their already considerable reverse auction advantages. Put simply, the proposed “lowest per-unit bids across all areas” selection mechanism appears to ensure that AT&T, Verizon and Sprint Nextel will receive virtually all the Mobility Fund support they want that is awarded by reverse auction.

The Blooston Rural Carriers note that both the National Telecommunications and Information Administration (“NTIA”) and the Rural Utilities Service (“RUS”) rejected a similar proposal by “71 Concerned Economists” that they distribute broadband grants and grant/loans under the Broadband Technology Opportunities Program (“BTOP”) and the Broadband Initiatives Program (“BIP”) via a reverse procurement auction that allowed participants to bid on geographic areas of their own choosing. NTIA and RUS elected instead to evaluate and select BTOP and BIP proposals on the basis of quantitative and qualitative factors (such as project purpose, benefits, viability, budget and sustainability) rather than the lowest per-unit costs proposed for areas gerrymandered by large carriers. As a result, the BTOP grants and BIP grant/loans appear to have been distributed equitably to a varied group of large, mid-sized and small entities.

Some may view it as an advantage that the proposed “lowest per-unit bids across all areas” mechanism will permit AT&T, Verizon and Sprint Nextel to color in more areas of their advertised national 3G and/or 4G coverage maps. However, coverage is not service, and is particularly not quality service. To date, the history of rural telecommunications service has demonstrated consistently and conclusively that small carriers are far more willing than their larger counterparts to invest in and maintain quality rural networks, deploy cutting edge services, employ sufficient local customer service and technical personnel, and remain sensitive to the needs of their rural customers. For a small carrier, the local rural community and surrounding

farms and ranches constitute a primary market; for a larger carrier, the same area is likely to be considered a backwater that has no material impact on its financial statements or stock price. Whereas small carriers can obtain roaming coverage for their rural customers when they travel outside their local service area, rural customers of larger carriers can expect little more than the minimum service required by federal and state regulators.

Hence, the Blooston Rural Carriers recommend that the Commission reject the proposed “lowest per-unit bids across all areas” procedure for the Mobility Fund reverse auction because it is too slanted in favor of large carriers and against small entities. They are not sure that any efficient and equitable reverse auction can be designed to distribute Mobility Fund and other USF support among a variety of differing service areas, broadband speeds, services and service packages, technologies and service providers. However, at the very minimum, the Commission should take advantage of the local knowledge and expertise of state commissions, and authorize them to identify and define (and, perhaps, rank in order of funding priority) the areas in their states that are “unserved” by 3G and/or 4G mobile broadband. Given that state commissions are responsible to their local electorates and are generally familiar with the mobile broadband service needs and circumstances of those electorates, it is more reasonable and equitable to give them control over the designation and ranking of the service areas eligible for funding in their states rather than ceding control of the areas supported by the Mobility Fund to large carriers.

### **III** **Exclusive Equipment Design and Procurement** **Arrangements Should Be Prohibited**

Successful bidders in Mobility Fund reverse auctions should be required to certify that they will not participate in exclusive arrangements for the design and/or procurement of handsets and other equipment. Large carriers, in particular, have the purchasing power to direct the

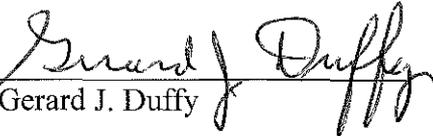
manufacture of equipment which meets their needs, as well as to induce manufacturers and vendors to enter into exclusive sales arrangements with them. Such exclusive arrangements can impair the service and competitive options of smaller carriers, deprive the customers of such smaller carriers of roaming capabilities and service features, and increase the cost of the mobile broadband services and equipment available to customers of smaller carriers. As a condition of receiving Mobility Fund support, successful bidders in the Mobility Fund reverse auction should be required to agree to forego such exclusive arrangements.

#### **IV** **Conclusion**

Given the importance of broadband infrastructure and services in the 21<sup>st</sup> Century economy and society, the Blooston Rural Carriers believe that universal service support should be provided both to one wireless broadband provider of last resort and to one wireline broadband provider of last resort in appropriate high-cost rural service areas. However, due to the substantial existing and potential funding demands upon USF programs, the recommend that the Commission expressly require the successful bidders in any and all Mobility Fund reverse auctions to deploy only 3G mobile wireless broadband facilities that are capable of ready, efficient and economical conversion to fourth generation 4G networks. In addition, the procedures for any Mobility Fund reverse auction must give service providers of all sizes, including rural telephone companies and other small businesses, a fair and equitable opportunity to receive support, and not employ the proposed “lowest per-unit bids across all areas” procedure that unduly and inequitably favors large carriers. State commission designation of “unserved” areas for Mobility Fund support purposes would be more reasonable and equitable than ceding control of the matter to the large carriers. Finally, successful bidders in Mobility Fund reverse

auctions should be require to certify that they will not participate in exclusive arrangements for the design and/or procurement of handsets and other equipment.

Respectfully submitted,  
**BLOOSTON RURAL CARRIERS**

By   
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## **ATTACHMENT A**

### **BLOOSTON RURAL CARRIERS**

3 Rivers Telephone Cooperative, Inc.  
Custer Telephone Cooperative, Inc.  
Harrisonville Telephone Company  
Hinton Telephone Co., Inc  
Midstate Communications, Inc.  
Northeast Louisiana Telephone Company  
Nucla-Naturita Telephone Company  
Penasco Valley Telephone Cooperative, Inc.  
Smithville Communications, Inc.  
South Slope Telephone Co., Inc.  
Strata Networks  
Walnut Telephone Company, Inc.  
Wiggins Telephone Association