WILTSHIRE
& GRANNIS LLP

REDACTED FOR PUBLIC INSPECTION

October 21, 2011

VIA ECFS

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

Re: *Developing a Unified Intercarrier Compensation Regime, CC Docket* No. 01-92; *High-Cost Universal Service Support,* WC Docket No. 05-337; *Establishing Just and Reasonable Rates for Local Exchange Carriers,* WC Docket No. 07-135; *Connect America Fund,* WC Docket No. 10-90; *A National Broadband Plan for Our Future,* GN Docket No. 09-51; *Federal-State Joint Board on Universal Service,* CC Docket No. 96-45; *Lifeline and Link-Up,* WC Docket No. 03-109

Dear Ms. Dortch:

On Wednesday, October 19, 2011, Ron Duncan, President and CEO of General Communication, Inc., Megan Delany, Counsel and Vice- President of Federal Government Affairs, Chris Nierman, Federal Regulatory Director, and Peter Pounds of General Communication, Inc., and I, of Wiltshire & Grannis LLP, on behalf of GCI, met with Julius Genachowski, Chairman of the Federal Communications Commission, Edward Lazarus, Chief of Staff to the Chairman, Zachary Katz, Chief Counsel and Legal Advisor to the Chairman, Carol Mattey, Deputy Chief of the Wireline Competition Bureau, and Michael Steffen of the Office of General Counsel. We later met with Robert McDowell, Commissioner of the FCC, and Christine Kurth, Policy Director and Wireline Counsel to Commissioner McDowell. Also on Wednesday, we met with Mignon Clyburn, Commissioner of the FCC, and Angela Kronenburg, Wireline Legal Advisor to Commissioner Clyburn.

Tina Pidgeon, Senior Vice President of Governmental Affairs & Senior Counsel of GCI, spoke with Christine Kurth by telephone on Wednesday, October 19th, and on Thursday, she spoke with Angela Giancarlo, Chief of Staff and Wireless and International Senior Legal Counsel to Commissioner Robert McDowell.

The substantive points presented in these conversations are summarized in the attached presentation. We made clear that the national proposal under consideration by the Commission

does not make sense as applied to Alaska, and would bring investment in deploying and upgrading telecommunications and broadband services in the state to a halt, especially in rural Alaska. Furthermore, the Commission cannot reasonably expect that it can revive the telecommunications investment climate in Alaska if it first announces and implements steps that will destroy it. Such a path would condemn Alaska to the wrong side of a widening broadband divide.

A copy of this letter is being filed in the above-referenced dockets.

Sincerely,

John T. Nakahata
Counsel to General Communication, Inc.

cc: Chairman Julius Genachowski
Commissioner Robert McDowell
Commissioner Mignon Clyburn
Edward Lazarus
Zachary Katz
Angela Kronenburg
Christine Kurth
Carol Mattey
Brad Gillen
Michael Steffen

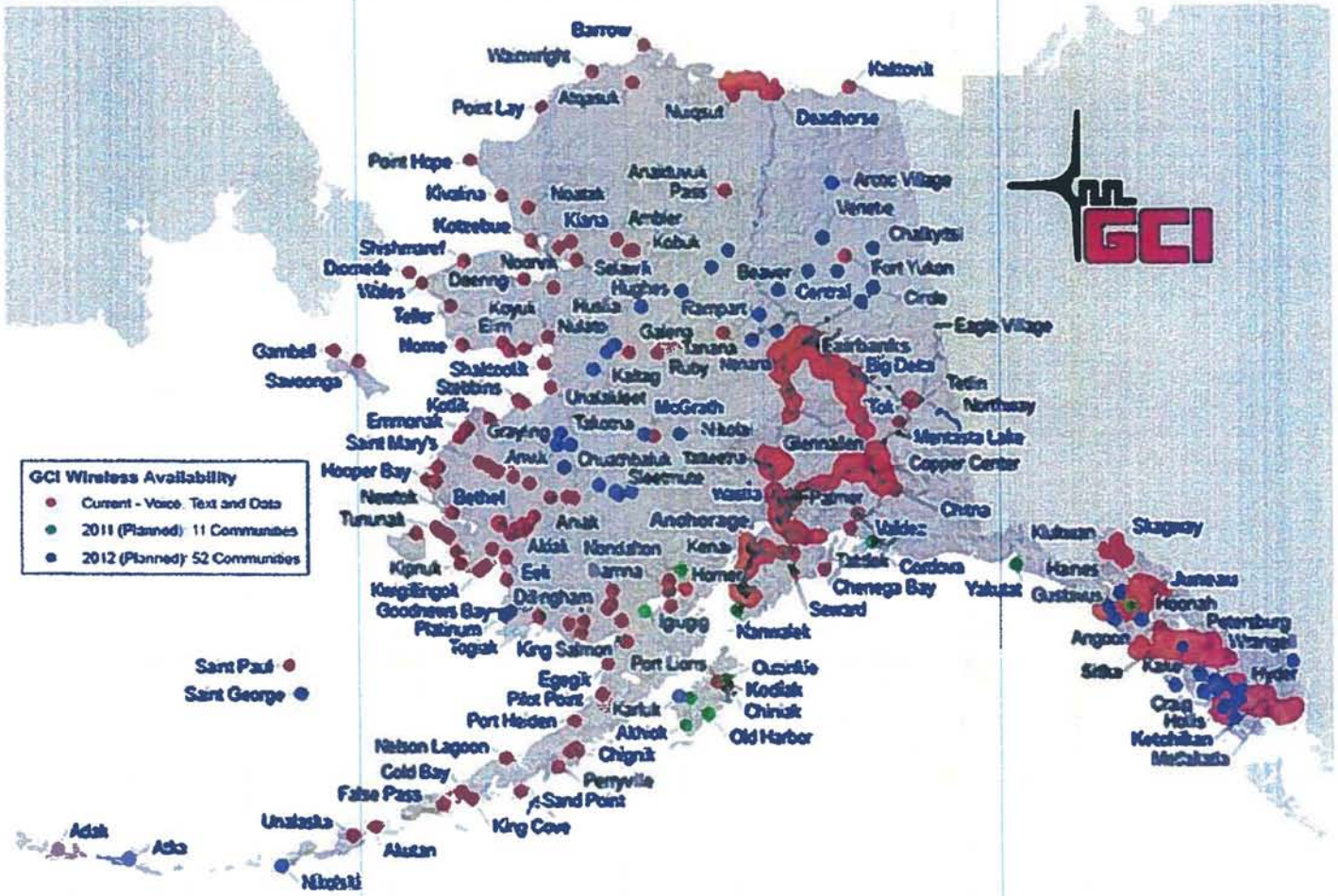
Attachment

REDACTED FOR PUBLIC INSPECTION

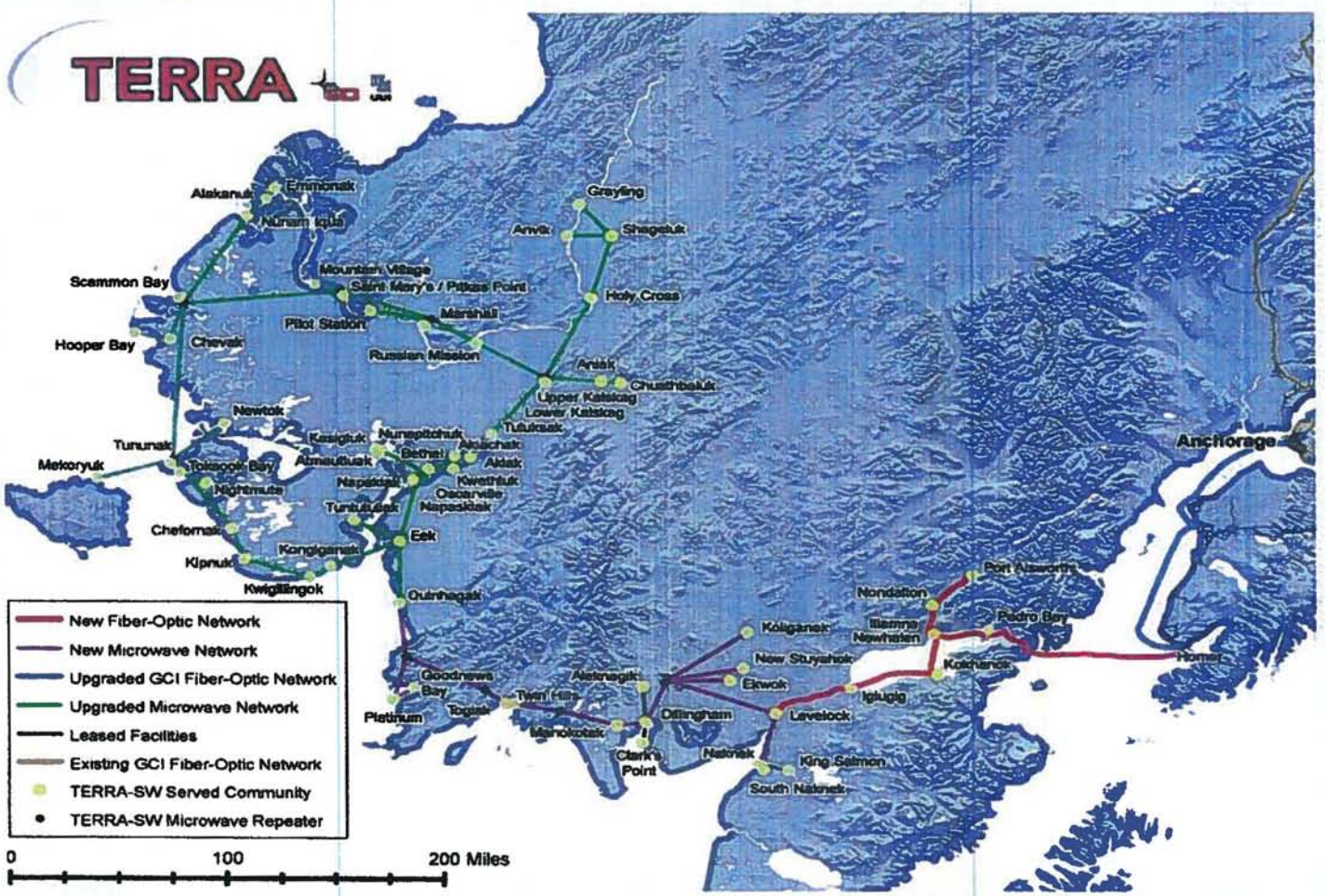
High Cost Changes

The Consequences to Alaska

The Last Mile For Voice And Broadband In Alaska Will Be Wireless



Alaska Still Has Substantial Middle Mile Challenges

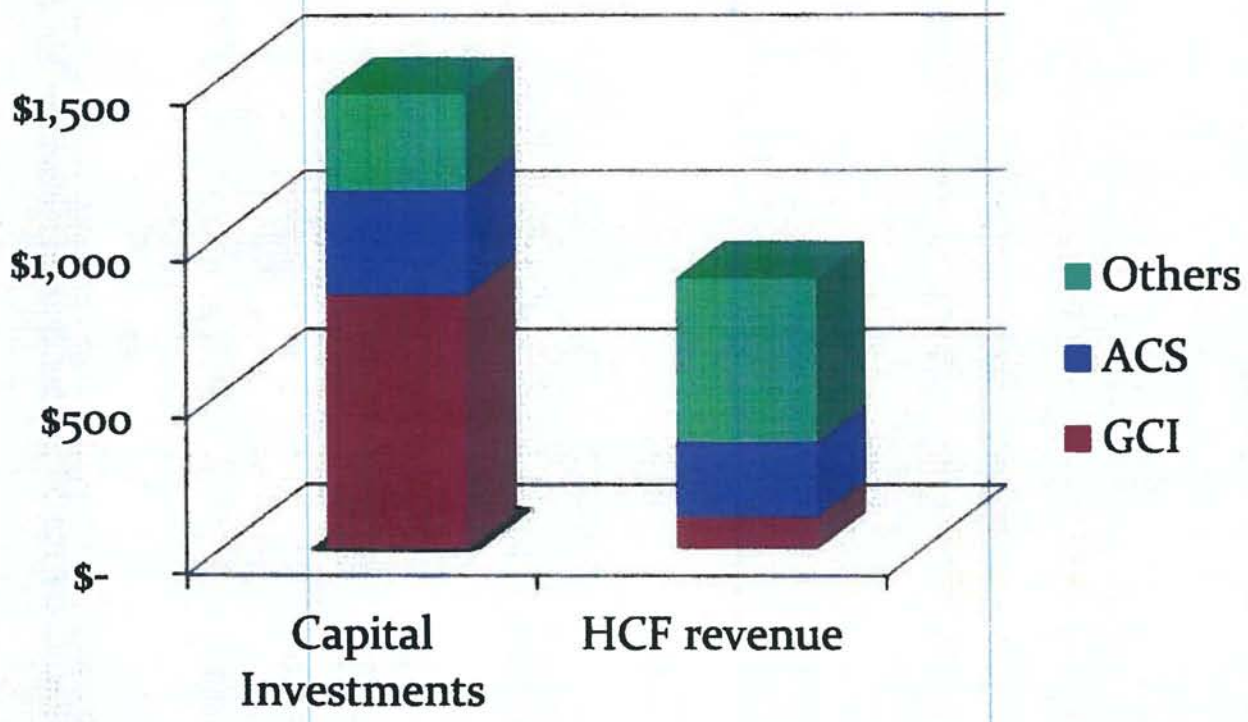


2008 CETC USF Cap "Tribal Lands" Order

- Opened Door to Substantial Investment in Alaska
  - Mobile wireless deployed in 128 of 180 **rural** communities
  - 69 **rural** communities moving from satellite to terrestrial middle mile service.
  - Fiber connectivity to Southeast Alaska
  - 22 Mbps urban consumer Internet launched
- GCI/Alaska Has Applied USF High Cost Fund ("HCF") Support to Rural Mobile/Broadband Just as the FCC encouraged in the 2008 order.

HCF Support: Enables Investment

2006 to 2010 – in millions



October Surprise: Alaska HCF Proposal

- Would Eliminate [redacted] of HCF in Alaska

HFC Recipient	2010 HFC	2011 HFC	After 5-year Phase Out	Reduction from 2010
ACS	$ 55,952	[redacted]		
GCI	$ 46,796			
Non ACS ILEC's	$ 69,003			
Other CETC's	$ 47,226			
Total	**$ 218,977**			

- Reduction of [redacted] Million Equal to Approximately [redacted] of Telecom Revenues in the State
- Proposed Mobility Funds Not Included
  - Unknown and unpredictable
  - Unlikely to benefit Alaska

Proposal Destroys Cash Flow and Capital Investment

Alaska Industry Totals – HCF as a % of

	2011 Estimate	2011 Proposal Pro Forma	Reduction
Revenues	14%	[redacted]	
EBITDA	36%		
Capital investment	101%		

Cutting industry cash flow by [redacted] over 5 years is a flash cut.

Proposal Targets The Wrong Carriers And The Wrong Technology

Domestic Alaska Carriers	Total Wireline Access Lines/ Wireless Handsets	Reduction in HCF Support from 2011	% Reduction
GCI	283,400	[redacted]	
ACS	269,232		
All Other Alaska Carriers	122,998		

Regardless of Its Intentions, the FCC's Effective Message to Carriers and Financial Markets Will Be:

Carriers that rely on FCC policies and invest as desired in rural wireless/broadband deployment should not expect dependable support, realistic replacement plans, or reasonable transition periods .

Proposal Discourages Investment In Alaska

amounts in ($ 000s)	GCI	ACS
2011 EBITDA	**235,000**	**126,000**
Less interest expense	(70,000)	(34,000)
Less capital investment	(190,000)	(52,000)
Cash flow for debt repayment & ROI	[redacted]	
Reduction from reform proposal	[redacted]	
Remaining cash flow		
Percentage of cash flow reduction	[redacted]	

To restore cash flow, carriers will have to <u>slash</u> capital investment.

Components of a Solution

- **Promote fiscal responsibility** by setting an overall budget and retargeting the distribution of USF support within that budget cap;
- **Maintain market-driven incentives** to expand service availability and adoption by continuing to provide support to CETCs on a per-subscriber basis; and
- **Require accountability** and **ensure the modernization of USF for broadband** by making commitments with respect to the level of broadband performance that must be delivered in return for continued receipt of high-cost support.

Components of a Solution

Steps	Areas	2010 amounts in millions	2011 amounts in millions
1	CETC Support >$380/line	$3	[redacted]
2	Anchorage	$13	[redacted]
3	Fairbanks/Juneau	$20	[redacted]
4	Remaining	$183	[redacted]
	Grand Total	$219	[redacted]
			[redacted]
	AT&T	$26	[redacted]

Conclusion

- General application of national reform proposals to Alaska is catastrophic for the Alaska telecom industry
- National proposals in Alaska Would Reverse the Enormous Progress (and stop further deployment) that Has Been Made in Alaska Rural Mobile/Broadband Deployment under the FCC's tribal lands policy adopted in the 2008 "CETC Interim Cap" Order
- Using the Alaska Carrier Broadband Principles as a Starting Point, the Commission Can Accomplish Its Reform Goals without Jeopardizing the Future of Rural Alaska and Its Predominantly Alaska Native Population