Atlantic Tele-Network, Inc.

600 Cummings Center
Suite 268
Beverly, MA 01915
Tel: (978) 619-1300

October 21, 2011

VIA ELECTRONIC FILING

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W., Room TW-B204
Washington, D.C. 20554

Re: Federal-State Joint Board on Universal Service
WC Docket No. 05-337; CC Docket No. 96-45;
GN Docket No. 09-51; WC Docket No. 06-122
CC Docket No. 01-92

Dear Madam Secretary:

In accordance with Section 1.1206 of the Commission's Rules, 47 C.F.R. § 1.1206, we hereby provide you with notice of an ex parte presentation made in connection with the above-captioned proceeding.

On Wednesday, October 19, 2011, Douglas Minster, Vice President Government and Regulatory Affairs, Atlantic Tele-Network, Inc. ("ATNI"), Jeffrey Humiston, General Counsel, Allied Wireless Communications Corporation ("Allied Wireless"), and Rohan Ranaraja, Director, Regulatory Compliance, Allied Wireless, engaged in a telephone discussion with Margaret McCarthy regarding the Commission's proposed universal service reforms, on behalf of ATNI and its subsidiaries, Allied Wireless, Choice Communications, LLC, and Commnet Wireless, LLC (herein collectively referred to as the "ATNI Companies"). Issues discussed with Ms. McCarthy are summarized in the following paragraphs.

In addition, on Thursday, October 20, 2011, Mr. Minster communicated with Ms. McCarthy via electronic mail, responding to certain questions raised by Ms. McCarthy regarding special access, local number portability, and the "rural exemption" included in Section 251 of the Communications Act. The substance of Mr. Minster's comments in his electronic mail communication concerning these issues is incorporated in the following paragraphs.

Efficient, Consumer-Oriented Reforms

Chairman Genachowski indicated last week that his plan for universal service reform "puts the interests of consumers first," and that the current universal service system is broken and must be replaced with more efficient, targeted funding mechanisms.

Representatives for the ATNI Companies explained in their discussion with Ms. McCarthy that the most effective way to meet the Chairman's goals is to design new universal service mechanisms that promote the availability of services sought by consumers in rural areas. The Commission should take note of the ample evidence that this consumer demand focuses on mobile services. For example, the Commission's *Internet Access Services Report*, released earlier this month, shows an increase of 63 percent in mobile Internet connections during calendar year 2010 (compared to 6 percent growth for fixed Internet connections). Over the past three years, the total number of mobile connections have increased *ten times faster* than the total number of fixed connections. Between December 2008 and December 2010, mobile broadband connections (with speeds of at least 3 Mbps downstream and 768 Kbps upstream) grew by 228% as opposed to 11.59% for fixed broadband connections. Similarly, mobile residential broadband connections (with speeds of at least 3 Mbps downstream and 768 Kbps upstream) grew by 5234% as opposed to 43.89% for fixed residential broadband connections during the same period. *Internet Access Services Report* at 16 (Tables 2 and 4).

Representatives for the ATNI Companies emphasized that the current system is broken because its funding is aimed at protecting entrenched wireline carriers, instead of aiding the deployment of networks and provision of services in response to rural consumer demand. The most recent data released by the Commission indicates that wireless carriers pay approximately $3 billion into the universal service fund, while receiving approximately $1.2 billion in high-cost disbursements. Amounts contributed by wireless carriers account for 43 percent of the fund, while contributions from wireline carriers comprise only 16 percent of the fund. This mismatch between contributions and funding disbursements works to the advantage of wireline carriers, but hardly serves the interests of rural consumers seeking the advantages of mobile telephony and Internet access. Representatives for the ATNI Companies stressed that, if the Commission intends to achieve the Chairman's goal of putting the interests of consumers first, then universal service funding must support services that consumers want and need. If the Commission's goal is to put consumers first, the fund must be structured to include support sufficient to continue the maintenance and expansion of the services that consumers choose. Based on the Commission's own report, those services are broadband and mobile.

Phasing Down Existing Universal Service Support

Representatives for the ATNI Companies stated that, in designing the transition from the current funding mechanisms to its new Connect America Fund ("CAF") and other support mechanisms, the Commission should follow a simple principle: "do no harm" to carriers'

ongoing efforts to invest in facilities and infrastructure in rural areas. Specifically, the Commission must ensure that new mechanisms for both fixed and mobile services are in place before existing funding is phased out. Failing to synchronize the shift in funding mechanisms in this manner would risk stranding carrier investment and undercutting carriers' efforts to obtain additional capital for their rural networks and operations.

Representatives for the ATNI Companies emphasized their concern that wireless carriers' efforts to deploy broadband infrastructure in rural areas could be severely curtailed if the Commission fails to develop transition mechanisms designed to mitigate the effects of any phase-down of existing funding, and to provide a workable bridge to the build-out of mobile broadband networks during the second phase of the Commission's implementation of funding mechanisms for mobile broadband. The risks are very real: If the Commission's transition mechanisms are ineffective, then business plans for the construction and operation of network infrastructure for mobile broadband in rural areas could quickly become untenable. An important objective of the Commission's transition mechanisms must be to promote a climate for continued and increased private investment in these mobile facilities.

Representatives for the ATNI Companies also explained that the Commission has options for the transition that would actually enable it to avoid triggering any immediate phase-down of current support disbursed to wireless carriers. The Commission will have "cash on hand" that will enable it to continue existing funding for wireless carriers (with no phase-down of support) during the transition to new support mechanisms, thus mitigating any risk of stranded investment or dislocations in the ongoing provision and expansion of service by these carriers.

Specifically, as illustrated in Attachment A ("A Phase Down of CETC Funding Is Not Necessary To Fund the Mobility Fund"), the Commission is able to provide the proposed one-time $300 million funding for the Mobility Fund, *without any phase-down* of existing support. This is due to the fact that the ongoing phase-down of support received by Sprint and Verizon Wireless (pursuant to merger conditions established by the Commission) will generate approximately $560 million in available support by July 2012, based on ATNI Companies' calculations using publicly available data. This support relinquished by Sprint and Verizon Wireless, which the Commission has already contemplated using for mobile broadband, is more than sufficient for the proposed Phase I of the Commission's implementation of funding mechanisms for mobility services, and also will help to serve as a bridge to the second phase of the implementation of new funding mechanisms, providing support for ongoing mobile carrier operations in rural areas.

As Attachment A demonstrates, utilizing relinquished Sprint and Verizon Wireless support for mobile broadband will actually reduce the universal service contribution factor to the benefit of consumers, will generate a total savings of approximately $1,051,000,000 through December 2013 from the Sprint and Verizon relinquishments, and will also avoid adverse impacts on the investment in, and provision of, mobile services that would be caused by a phase-down of current support. As Attachment A also demonstrates, the Sprint and Verizon Wireless

phase-down amount between July 1, 2012, and December 31, 2013, will be more than a 20% reduction of the remaining competitive ETCs' funding during that same period.

Focusing CAF Funding on Consumers

Representatives for the ATNI Companies explained that the surest and most direct path to fixing the current broken system and serving the interests of consumers is to provide for flexible CAF and other funding mechanisms that enable funding to follow consumers, and that support the provision of services and deployment of networks that best meet consumers' needs. The Commission should reject proposals whose agendas are to preserve and increase the slice of the funding pie available to carriers providing services that use outmoded wireline facilities, and that are being left behind in the marketplace as consumers increasingly shift to mobile services and mobile Internet access.

The current funding pendulum has swung too far in the direction of wireline carriers, and representatives for the ATNI Companies emphasized in their discussion with Ms. McCarthy that the Commission's reforms must correct this broken funding scheme by moving the pendulum in a new direction. Specifically, at the very minimum, the Commission should provide ongoing CAF support for mobile broadband at an annual level of $1.2 billion, which is equal to the current level of capped high-cost support disbursed to wireless carriers. Representatives for the ATNI Companies indicated that the Commission should design the new funding mechanisms in an equitable manner that reflects rapidly shifting consumer demand. The Commission should ensure that the interplay between CAF and mobility funding mechanisms operates in a manner that does not favor one technology at the expense of the other. In this regard, proposals advanced by price cap carriers, which would increase their current level of support and, according to some estimates, lock in more than $10 billion in CAF funding for these carriers over a ten-year period, should be rejected.

Representatives for the ATNI Companies observed that universal service reform presents the Commission with an opportunity to adopt policies that respond to the interests of consumers—and the Commission should seize this opportunity by fashioning funding mechanisms that enable deployment of mobile networks throughout rural America.

Conditions on Recipients of CAF or Mobility Support

Representatives for the ATNI Companies explained that, as an important element in realizing the full benefits of USF-supported mobile and fixed networks, the Commission should consider conditions on recipients of support. Many of the suggested conditions could be the same for both wireline and wireless carriers (*e.g.*, aggressive time-lines for the deployment of network infrastructure), while other conditions could be crafted to apply only to one class of carriers (*e.g.*, requiring wireline carrier auction winners to comply with interconnection obligations in Section 251 of the Communications Act) *See* Attachment B, Section titled "Conditions on Recipients of CAF or Mobility Support"

Representatives for the ATNI Companies suggested that a funding condition requiring the rapid build-out of network infrastructure would benefit consumers by increasing the likelihood that only those carriers committed to establishing ongoing operations in a service area would seek universal service support. On the other hand, smaller carriers with limited resources could be disadvantaged by a rapid build-out requirement, and representatives for the ATNI Companies cautioned that the Commission should design deployment requirements in a manner that would take into account and seek to accommodate these concerns.

Cost-Based Special Access. In response to Ms. McCarthy's questions regarding conditions on USF recipients, Mr. Minster indicated in his electronic mail communication that expenses for special access (comprising back haul and transport services) are a significant part of the costs to operate a cell site. In fact, representatives for the ATNI Companies, during their meeting with Ms. McCarthy on September 12, discussed the impacts of transport pricing on the ATNI Companies' operations in the absence of universal service support.

Mr. Minster suggested that a condition on the receipt of funding that would keep special access charges in check would be beneficial toward keeping operating costs reasonable in the face of reduced support levels. Given that special access remains largely unregulated, rural wireless carriers, such as Allied Wireless, that serve sparsely populated areas—where there is typically no alternative to the incumbent for purchasing special access services—do not anticipate special access costs will decline in the absence of action by the Commission. The ATNI Companies propose that recipients of CAF support should be required to provide backhaul and transport at cost-based rates with a reasonable rate of return, instead of "market-based" rates. The availability of CAF funding to an incumbent carrier, combined with market-based special access rates, would otherwise serve as a barrier to entry by competitors in rural, high-cost markets. Although the ATNI Companies recognize that there is an open Commission proceeding related to special access matters, the ATNI Companies nevertheless believe that requiring cost-based special access rates could be a valuable component of universal service reform.

The Rural Exemption in Section 251 of the Act. In response to Ms. McCarthy's questions regarding the rural exemption, Mr. Minster stated in his electronic mail communication that Mobility Fund or CAF support recipients should be prohibited from invoking (directly or through a subsidiary or an affiliate) the "rural exemption" under Section 251(f)(1) of the Act from Section 251(c) duties, including non-discriminatory and cost-based (1) interconnection (§ 251(c)(2)); (2) access to unbundled network elements (§ 251(c)(3)); and (3) collocation (§ 251(c)(6)).

Carriers seeking such funding should also be barred from requesting, pursuant to Section 251(f)(2), the suspension or modification of any requirement set forth in Section 251(b) or 251(c), including local number portability (§ 251(b)(2)). Mr. Minster explained that permitting carriers to maintain an exemption from, or to suspend, the bedrock pro-competitive duties in

Section 251(b) and 251(c) cannot be squared with the obligation of universal service support recipients to operate in the public interest.

Reverse Auctions for the Phase II Mobility Fund

Representatives for the ATNI Companies emphasized that they favor the use of forward-looking economic cost models as the most effective, efficient, and pro-competitive means of disbursing support under the Commission's new funding mechanisms. Nonetheless, in light of Ms. McCarthy's expressed interest in auction-related matters, representatives for the ATNI Companies expressed their opinion regarding three issues related to the use of reverse auctions as a funding mechanism. (These issues are also addressed in greater detail in Attachment B, Section titled "Mobility Fund Phase II – Auctions as a Distribution Mechanism").

Representatives for the ATNI Companies suggested that the Commission should utilize counties as the appropriate geographic areas for conducting reverse auctions and disbursing CAF funding. Because counties are relatively small geographic areas, their use in the reverse auction process would, at least to some degree, increase the number of carriers likely to participate in auctions, which in turn would benefit consumers. On the other hand, the Commission should reject proposals to permit "Balkanized" or packaged license areas, because of the risk that such an approach would encourage gaming the auction process and limiting participation by small carriers in the auctions. To the extent small carriers are driven out of the auction process, competition would be hindered, the Phase II funding mechanisms would operate less efficiently, and the interests of consumers would not be served.

In addition, the use of a reverse auction mechanism could be made more palatable through the use of bidding credits, which could help to ameliorate some of the inherent disadvantages that reverse auctions pose for smaller carriers. In this respect, the ATNI Companies suggested that the Commission should consider offering a sliding scale of bidding credits of up to 25% to carriers participating in an auction, based upon specified criteria. The ATNI Companies recommended that the method of assigning funds (model or auction) and the details of those methods be explored more fully in further proceedings.

* * * * * * *

If you have any questions or require any additional information, please contact the undersigned.

Sincerely,

Douglas J. Minster
Vice President, Government and Regulatory Affairs
Atlantic Tele-Network, Inc.

Attachments

cc: Margaret McCarthy
Jeffrey Humiston
Rohan Ranaraja

ATTACHMENT A

A PHASE DOWN OF CETC FUNDING IS NOT NECESSARY TO FUND THE MOBILITY FUND

1. A phase down of CETC Funds is not necessary to fund a $300M Mobility Fund because the FCC would have collected nearly double that amount by July 2012.

2. A phase down of CETC Funds between July 2012 and December 2013 will hurt investment in rural areas while the FCC works on the mechanics of the Mobility Fund II.

3. The CETC funds that will be phased out between July 2012 and December 2013 will be less than the savings that would be realized due to the VZW/Sprint Phase down during that same period.

4. The savings from the VZW/Sprint phase down will result in an approximately .6% reduction in the contribution factor based on the funding needs and the contribution base for Q4 2011.

5. While consumers clearly prefer mobile service, USF funding for wireless has already been capped, reduced by almost 30% due to the VZW/Sprint phase down and could be reduced by an additional 40% by December of 2013.

USAC Projected Q4 2009 High Cost Disbursement to VZW/Sprint Annualized	$482,538,840	*
USAC Projected Q4 2009 High Cost Disbursement to VZW Divested Areas Annualized	$132,060,096	*
Net Disbursement to VZW/Sprint that is subject to 20% Annual Phase Down	$350,478,744	
2009 phase down (20%) begins in January	$70,095,749	
2010 phase down (40%) begins in January	$140,191,498	
2011 phase down (60%) begins in January	$210,287,246	
2012 Phase down (80%) begins in January	$280,382,995	
2013 Phase down (100%) begins in January	$350,478,744	
Total savings from VZW/Sprint Phase down through December 2013	$1,051,436,232	
Savings due to phase down through July 2012 (2009+2010+2011+2012/2)	$560,765,990	
Proposed one-time Mobility Fund - Phase I to be implemented July 2012	$300,000,000	
Balance after set aside for Mobility Fund - Phase I	$260,765,990	
Potential Funds available for reducing contribution factor in 2012 without a CETC phase down	$260,765,990	
Potential Funds available for reducing contribution factor in 2013 without a CETC phase down	$350,478,744	
Q4 2011 total program collection less VZW/Sprint Phase down (1/4)	$2,104,900,314	**
Q4 2011 Adjusted Quarterly Contribution Base	$14,344,238,000	**
Revised Q4 2011 Contribution Factor	0.1467	
Current Q4 2011 Contribution Factor	0.1528	**
Impact of VZW/Sprint reduction on Q4 2011 Contribution Factor (.1467 - .1528)	-0.0061	

*USAC Fourth Quarter 2009 HC01 Report . This report appears to separate divested areas for the first time. Amounts may be understated.
** FCC PN Proposed Fourth Quarter 2011 Universal Service Contribution Factor September 13, 2011

ATTACHMENT B

Mobility Fund Phase II – Auctions as a Distribution Mechanism

- The ATNI Companies favor the use of forward -looking economic cost models as the most effective and efficient means of distributing support. In light of interest in auction-related matters, the ATNI Companies present the following considerations.

- Commission should identify "un-served/under-served" based on the following criteria:
    1. Ubiquitous dual access to Mobile Broadband via EVDO and HSPA Technologies; and/or
    2. Ubiquitous Single Access to Mobile Broadband via 4G technology.
    3. As the Cost Quest study filed by the CTIA points out, dual access via both EVDO and HSPA technologies are essential until 4G LTE because the two technologies are not inter-operable.

- Commission should identify "un-served/under-served areas" in terms of road miles that lack the coverage levels identified above. Because mobility is a fundamental characteristic of wireless coverage, the use of road miles would more accurately capture areas where people live and travel. Given that people in rural areas travel long distances in their day to day lives ensuring broadband availability in this manner is of significant importance.

    a. The Cost Quest study file by the CTIA found that approximately 62% of road miles do not have access to full access dual mobile broadband services via EVDO and HSPA technologies.
    b. The study also found that the estimated minimum investment needed to build infrastructure to facilitate the two technologies is approximately $7.8B.
    c. The Cost Quest study file by the CTIA found that approximately 90% of road miles do not have access to any next generation mobile broadband technology.
    d. The study also found that the estimated minimum investment needed to build infrastructure to facilitate one next generation technology is approximately $10B.

- Geographic areas that meet the above requirements should be eligible for funding from the Universal Service Fund. Should the FCC determine reverse auctions are the appropriate mechanism to distribute funding, the geographic area that is made available for bidding at the auction should be the county.

    a. Smaller geographic areas will – to some extent – help increase the number of carriers that participate in such an auction and, in turn, benefit customers in those areas.
    b. The two biggest barriers to participation will be the limited availability of spectrum and inability of smaller carriers to compete with the economies of scale of larger national carriers. Therefore, the Commission should keep the auction areas small and request bids for qualifying areas at the county level.
    c. The ATNI Companies believe the above considerations militate against consideration of package bidding.

- In the absence of a cost based distribution mechanism, the Commission should also consider the awarding of bidding credits to address some of the inherent disadvantages that small carriers face in an auction based distribution mechanism. The Commission should offer bidding credits of up to 25% to carriers based on the following concepts:
    a. Size of market share of bidding carrier in the state;
    b. Size of market share of bidding carrier nationally;
    c. Share of Urban vs. Rural markets served by bidding carrier in state;
    d. Share of Urban vs. Rural markets served by bidding carrier nationally.

- The criteria identified above are intended to counter the ability of larger carriers to cross - subsidize across markets and game the auction process.

Conditions on Recipients of CAF or Mobility Support

- In order to realize the full benefits of USF funded networks, both mobile and fixed, the Commission should consider imposing conditions on CAF recipients
    a. Conditions on Mobile winners:
        i. Require aggressive build out time lines;
        ii. Require mobile winners to provide voice roaming at competitive rates to other mobile carriers;
        iii. Require mobile winners to provide data roaming at competitive rates to other mobile carriers;
        iv. Require mobile winners to provide collocation to mobile carriers at competitive rates;
        v. Require mobile winners to demonstrate need for ongoing operating expenses after initial build out based on forward looking costs.
        vi. Impose penalties for failure to meet build out deadlines;
    b. Conditions on fixed winners:
        i. Require aggressive build out time lines;
        ii. Require fixed winners to meet all 251 (b) and (c) interconnection obligations with a waiver;
        iii. Require fixed winner to meet all intra or intermodal local number portability obligations ;
        iv. Require mobile winners to demonstrate need for ongoing operating expenses after initial build out based on forward looking costs.
        vii. Impose penalties for failure to meet build out deadlines
        viii. Prohibit Exclusive or Discriminatory contracts or arrangements with third parties.