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April 23, 2012

Ex Parte

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

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

Dear Ms. Dortch:

General Communication, Inc. ("GCI") hereby responds to the Alaska Rural Coalition's ("ARC") ex parte letter of April 19, 2012.[1] ARC now apparently concedes, as it must, that when all the Commission-specified elements of the high cost low-rate benchmark are taken into account—which ARC had previously failed to do—GCI's non-promotional rates do not fall below that benchmark. Even when promotional rates are also included in the benchmark calculation, it is only if a substantial portion of GCI's $10 promotional discount is allocated to the state-tariff local rate rather than the federal rate elements that the benchmark could be breached as of July 1, 2012. Of course, the same is true for ARC members that offer electric bill discounts or other inducements for subscribing to local telephone service—including the rural cooperatives' capital credits. And ARC does not dispute that the inclusion of promotional rates in calculating the low-rate benchmark raises both policy and implementation issues that will affect all ETCs subject to the benchmark – including all rate-of-return and price cap LECs providing service outside of Alaska. What GCI was illustrating in its last ex parte is that including bundles and promotions, rather than just considering R-1 rates, adds substantial complication to the benchmark calculation in a world in which bundles and promotions are not confined to the state-tariffed portion of local service, but can extend across the federal portion of local service, long distance, video, Internet access, wireless, and electric services. Just as the

1 *See* Letter of Shannon M. Heim, Counsel, Alaska Rural Coalition, to Marlene H. Dortch, Secretary, FCC, CC Dockets No. 96-45, 01-92, 03-109; WC Dockets No. 05-337, 07-135, 10-90, GN Docket No. 09-51 (filed Apr. 19, 2012)("ARC April 19, 2012 Ex Parte").

ARC failed to consider and present the actual facts to the Commission, they also ignore all the different aspects of promotions and bundles that they utilize themselves.

Calling GCI's promotional rates "USF-funded"[2] does not advance the discussion. For all ETCs, whether CETCs or ILECs, any discount or payment of funds could be branded with the epithet of "USF-funded." ARC members' electric bill credits for purchasing local service packages can equally be termed "USF-funded," as can the "capital credits" they disburse to their subscribers (since all subscribers are owners in a cooperative, there is no meaningful distinction). These electric bill reductions and capital credits also offset the subscriber's local bill, functionally resulting in the "artificially low local rates in rural areas" that ARC decries when in the form of a GCI promotional discount.[3] ARC resides in a glass house.

Nor does GCI's proposal that the lowest benchmark rate charged by any ETC be imputed to all ETCs allow GCI to "establish an artificially low (or USF-funded rate benchmark"[4] that would perpetuate any kind of competitive imbalance. GCI's proposal simply means that all wireline ETCs in that service area would have their high cost support reduced by a similar amount per line. If GCI's wireline rates were $2.00 below the benchmark and the ILEC's were higher than the benchmark, GCI wireline would lose $2.00 per line in high cost support as would the ILEC. No "artificially low" benchmark is created, and in fact excess USF support is *removed.* Notably also, GCI did not propose a one-way street; if the ILEC's rates are $2.00 below the benchmark and GCI's wireline rates were above the benchmark, GCI would still lose $2.00 per wireline line in high cost support, as would the ILEC. GCI's proposal is competitively balanced.

What ARC's letter reveals is that ARC simply does not want to compete – and wants to be paid USF support for not doing so. Even when GCI's ETC operations received the support based on the ILEC's support per line, GCI was not receiving *more* support than the ILEC per line served: to the extent that GCI cut prices (including through promotions), it was able to do so either because it drove lower the cost of offering wireline local service over the same ETC service area or accepted lower profits. And under the pre-*CAF Order* CETC support mechanism, GCI's support per line, while in average mirroring the ILECs', was in fact defined by the RLECs themselves through the disaggregation options that they elected. While rate-of-return ILECs and Remote Alaska CETCs, going forward, no longer have their support levels tied together, it is wholly inaccurate that Remote Alaska CETC support is remaining constant while rate-of-return ILEC support is declining.

The myth that ARC attempts to perpetrate – that Remote Alaska CETCs are treated more favorably in the *CAF Order* than Remote Alaska ILECs – is pure rubbish. Let's just look at the facts:

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[2] ARC April 19, 2012 Ex Parte, at 3.

[3] *See id*. at 2, and n. 9.

[4] *Id.* at 3.

- GCI, as a CETC, has already lost *all* support above $3000 per line per year in the Adak study area, even though Adak's RLEC has yet to lose *any* support and will have the $3000 per line annual limit phased in over three annual steps between July 2012 and July 2014.[5] (Adak's CETC affiliate, however, has submitted a request for a waiver of the $3000 limit.)[6]

- GCI, as a Remote Alaska CETC, already has seen its high cost support fall by over 6 percent throughout Rural Alaska, but ARC members have yet to see their support reduced (the first reforms take effect July 1, 2012). GCI, and all other Remote Alaska CETCs, will further see their high cost support per line cut as wireless lines grow throughout Remote Alaska, due to the operation of the statewide Remote Alaska cap. ARC's members' high cost support is not subject to any similar statewide cap. Moreover, GCI loses high cost support whenever a customer drops its service, including "cutting the cord," while ARC's members' support does not similarly automatically fall with line loss.

- GCI, in the part of ARC member Matanuska Telephone Association's study area that does not fall within Remote Alaska, will see its high cost support cut by 20 percent effective July 1, 2012, and phased out entirely in five annual steps. Nowhere does any ARC member face the elimination of all of its high cost support (except if a CETC offers 4 Mbps downstream/1 Mbps upstream broadband service to 100% of residential and business locations within that RLEC's service area), even outside of Remote Alaska and even when a CETC will – post-phase-out of CETC support – offer non-subsidized service.

- GCI's wireline CETC operations are presently not going to be able to receive *any* high cost support in areas served by the ARCs members once the CETC support phase-out is complete in Remote Alaska, while ARC members, absent a further change in rules, will *always* receive high cost support unless GCI or some other CETC serves 100 percent of the customer locations within that Remote Alaska ILEC's study area.

- When terminating access charge reductions begin July 1, 2012 and are implemented over the succeeding nine years, GCI's wireline CETC operations will see those access revenues eliminated; on the other hand, ARC members will have the Connect America Fund supply replacement revenues nearly (but not completely) offsetting the loss of access revenues.

If competitive neutrality and an "even-handed application of the rules"[7] is what ARC wants, then all of these pro-RLEC deviations from competitive neutrality and an "even-handed application of

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5 Compare 47 C.F.R. § 54.307(e)(1)(limiting CETC support to $3000 per line) with 47 C.F.R. § 54.302 (phasing in the $3000 per line limit on ILEC support).

6 *See* Petition for Waiver, Windy City Cellular, LLC, WC Docket Nos. 10-90 et al. (filed Apr. 3, 2012).

7 ARC April 19, 2012 Ex Parte at 3.

the rules" should also be addressed. ARC's RLEC members are in a much more favorable position under the *CAF Order* than any CETC anywhere, including in Remote Alaska.

Finally, ARC does not dispute that its proposals will have a positive high cost budget "score." ARC still has not put forward any estimate of the additional high cost support that would result from its proposed two-year delay in implementing rate-of-return LEC reforms.

Please contact me if you have any questions.

Sincerely,

John T. Nakahata
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