

**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
Universal Service Reform – Mobility Fund	)	WT Docket No. 10-208

To: Wireline and Wireless Telecommunications Bureaus

**COMMENTS OF**  
**RURAL TELECOMMUNICATIONS GROUP, INC.**

**RURAL TELECOMMUNICATIONS  
GROUP, INC.**

Caressa D. Bennet  
Anthony K. Veach  
Bennet & Bennet, PLLC  
6124 MacArthur Blvd.  
Bethesda, MD 20816  
(202) 371-1500

Its Attorneys

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**TABLE OF CONTENTS**

**SUMMARY .....i**

**I. Introduction.....1**

**II. Because There is no Perfect Source of Data Depicting Wireless Service Availability in the U.S., There Must be a Sufficient Amount of Time for Census Block Eligibility Challenges.....3**

**III. The Commission Should Make Adjustments to the Centroid Method.....6**

**IV. The Commission Should Establish a Phase II Term of Support and Public Interest Obligations That Provide Certainty to Rural Carriers.....7**

**A. The Phase II Term of Support Should Be Tied to the Way Rural Wireless Networks are Planned, Built, and Operated.....8**

**B. Build-Out Requirements Should Be Adjustable and Disbursements Should be Made on a Monthly or Quarterly Basis.....9**

**C. Performance Obligations Should Evolve on a 10 Year Cyclical Basis.....10**

**D. New Performance Obligations May Require Additional Spectrum.....11**

**V. The Commission Should Continue to Use Road Miles as Bidding and Coverage Units, and Should Employ Alternative Methods for Certain Areas.....12**

**VI. The Commission Should Prioritize Support to Certain Areas Through the Use of Bidding Credits.....13**

**VII. For Rural Carriers that Receive Support Today and are Unsuccessful at Receiving Support Through the Phase II Reverse Auction, the Commission Should Determine Where to Target Support Using a Cost Model.....15**

**VIII. Conclusion.....17**

## Summary

Many of RTG's members currently utilize universal service support to maintain and expand mobile wireless services in hard to serve rural areas. If Phase II of the Mobility Fund is not structured correctly, many rural carriers may end up reducing service to such areas because of lack of funding.

Because there is no perfect source of data from which the Commission will determine which areas are eligible for support, there must be a sufficient amount of time for census block eligibility challenges. RTG requests that the FCC allow at least 45 days for comments and 30 days for reply comments for carriers to weigh in on the data being used and to correct errors in that data. Additionally, the centroid method should be modified for Phase II. The Commission should allow bids for census blocks where the centroid is covered, but large portions of the census block are not covered. Carriers should also be given sufficient time to identify such "centroid exceptions."

The Commission should adopt a Phase II term of support that provides carriers with certainty and is related to the way carriers account for costs, and should refrain from adopting any new performance obligations that take effect during the initial term of support. Rather, the Commission should have any such rule changes go into effect only after the completion of the initial term of support and only after the completion of a rulemaking process that establishes additional performance criteria. Disbursements of Phase II support should be made on a monthly or quarterly basis.

RTG supports the continued use of road miles as bidding and coverage units, but the Commission should employ alternative methods for certain remote areas. In census blocks in Alaska and in many western states where roads are not present, the Commission should consider

the total square-mileage of the census block and allow a bidder to simply bid on the area to be covered.

RTG urges the Commission to utilize bidding credits in Phase II. Bidding credits will enable the Commission to target ongoing support to certain areas, including areas that lack coverage, areas that have coverage below 3G, and areas that would lose service without ongoing support. As part of the Phase II reverse auction process, a carrier's formal bid should be augmented to reflect bidding credits earned for meeting certain criteria that are deemed in the public interest. RTG supports providing bidding credits to small businesses, carriers that are already providing mobile wireless service to rural consumers, carriers that have a history of serving rural markets, and carriers that seek to serve unserved areas. Additionally, there are many rural areas throughout the U.S. that are served by a single wireless carrier where ongoing support will undoubtedly be needed to continue providing much needed mobile services. In such areas where a private-sector business case is lacking, RTG urges the Commission to utilize either a cost model to provide a type of "safety-net support" or a "safety-net bidding credit."

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**Comments of the Rural Telecommunications Group, Inc.**

The Rural Telecommunications Group, Inc. (“RTG”),<sup>1</sup> by its attorneys, hereby submits its comments in response to the Federal Communications Commission’s (“FCC” or “Commission”) Public Notice<sup>2</sup> in the above-captioned proceeding.

**I. INTRODUCTION**

RTG commends the FCC for requesting comment on issues related to the creation, implementation, and operation of the Mobility Fund Phase II. Launching the *Further Inquiry* at this time allows commenters to draw on lessons learned from what took place before, during, and after Phase I. Many RTG members currently utilize ongoing support to maintain operations in hard to serve rural areas. It is extremely important to RTG’s members that the overall Mobility Fund Phase II process for distributing ongoing support is efficient and well-run, and successful at

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<sup>1</sup> RTG is a Section 501(c)(6) trade association dedicated to promoting wireless opportunities for rural telecommunications companies through advocacy and education. RTG’s members have joined together to speed delivery of new, efficient, and innovative communications technologies to the populations of remote and underserved sections of the country. Many of RTG’s members are competitive eligible telecommunications carriers. RTG’s members are comprised of both independent wireless carriers and wireless carriers that are affiliated with rural telephone companies. Each of RTG’s members serves less than 100,000 subscribers.

<sup>2</sup> *Further Inquiry Into Issues Related To Mobility Fund Phase II*, WC Docket No. 10-90, WT Docket No. 10-208, Public Notice, DA 12-1853 (Nov. 27, 2012) (*Further Inquiry*).

ensuring the continued support of advanced mobile services in rural and remote areas. If Phase II is not structured correctly, many carriers may end up reducing service to such areas, thus defeating the Commission's goals in this proceeding. In these comments, RTG addresses high-level policy issues and the mechanics of Phase II. RTG's comments build upon comments and reply comments already filed in response to the questions posed in the FNPRM portion of the *USF/ICC Transformation Order*, and incorporate lessons RTG's members have learned from participation in Phase I of the Mobility Fund.<sup>3</sup>

The Commission's *Further Inquiry* must not be the final opportunity to weigh in on the Phase II process. As with Phase I, the FCC should seek separate comment on the design of the Phase II auction.<sup>4</sup> At that time, the FCC will need to obtain and evaluate additional public comment that will help it to develop an auction mechanism that cures the problems carriers experienced during the Phase I pre-auction, auction, and post-auction. RTG anticipates providing additional feedback on those processes when the FCC seeks comment on the Phase II auction design.

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<sup>3</sup> See RTG Comments, WC Docket No. 10-90 et al., (filed Jan. 18, 2012); RTG Reply Comments, WC Docket No. 10-90 et al., (filed Feb. 17, 2012). See also RTG Comments, AU Docket No. 12-25 (Feb. 24, 2012); RTG Reply Comments, AU Docket No. 12-25 (filed Mar. 9, 2012).

<sup>4</sup> RTG expects the FCC to seek comment on the design of the Phase II auction, similar to how the FCC implemented Phase I. After announcing Phase I of the Mobility Fund, among other things, the FCC sought comment on determining the basic auction design, including the round format, how eligible areas may be aggregated for bidding, how awardees will be selected, and the establishment of certain other bidding procedures. See *Mobility Fund Phase I Auction Scheduled for September 27, 2012; Comment Sought on Competitive Bidding Procedures for Auction 901 and Certain Program Requirements*, AU Docket No. 12-25, Public Notice, DA 12-121 (Feb. 2, 2012).

**II. BECAUSE THERE IS NO PERFECT SOURCE OF DATA DEPICTING WIRELESS SERVICE AVAILABILITY IN THE U.S., THERE MUST BE A SUFFICIENT AMOUNT OF TIME FOR CENSUS BLOCK ELIGIBILITY CHALLENGES.**

One of the major issues leading up to Auction 901 was the determination of which areas would be eligible for Phase I support. The Commission used data provided by Mosaik Solutions f/k/a American Roamer (“Mosaik”), and has proposed to use the same data for Phase II.

Although many Phase I participants pointed out the flaws in the data provided by Mosaik, due to a lack of alternatives, the Commission will likely use Mosaik data for Phase II. Because the Mosaik data will in many cases be flawed, the Commission should allow carriers, as it did in Phase I, to challenge the Commission’s determination of whether an area is eligible for support, and allow challenges or rebuttals to other carriers’ claims of service availability.

In its *Eighth Broadband Progress Report*,<sup>5</sup> the FCC provided an estimate of mobile wireless broadband deployment between June 30, 2010 and June 30, 2011, based on State Broadband Initiative (“SBI”) Grant Program data and data provided by Mosaik. While the report contains an increased amount of information on mobile wireless broadband deployment and availability in the U.S. in comparison to past years’ broadband progress reports, the Commission’s final conclusion on the current state of U.S. broadband deployment is based solely on the estimated deployment of terrestrial-fixed broadband services. The FCC did not consider

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<sup>5</sup> *Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996, as Amended by the Broadband Data Improvement Act*, GN Docket No. 11-121, Eighth Broadband Progress Report, FCC 12-90 (Aug. 21, 2012) (*Eighth Broadband Progress Report*).

deployment of mobile wireless services in its decision because it was concerned that the available data on the extent of mobile wireless broadband coverage in the U.S. is overstated.<sup>6</sup>

The Commission has acknowledged that the Mosaik data is not reliable.<sup>7</sup> Carriers' coverage areas as shown on Mosaik maps are often overestimated, sometimes underestimated, and in some instances not even available. The unreliability of Mosaik's data in areas served by RTG members is due to the fact that: (1) most of RTG's members do not report their coverage data to Mosaik; and (2) it is common practice for the larger Tier I carriers to report smaller carriers' coverage based on estimates derived from roaming agreements and observation of tower locations.<sup>8</sup> While the mobile wireless coverage maps produced by Mosaik are used for sales and marketing purposes, they cannot be relied on "as is" by the Commission for purposes of making the vital decision of where to distribute Phase II ongoing support.

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<sup>6</sup> *Id.* at ¶36. Notwithstanding its concerns over exaggerated mobile wireless deployment data, the FCC acknowledges in the *Report* that Americans continue to expect wireless service to be available everywhere: "Today, Americans increasingly are using their smartphones and other mobile devices everywhere they go – at home, work, and travel – in addition to their home broadband connection." *Id.* at ¶33.

<sup>7</sup> The Commission has recognized that Mosaik data is useful only for "measuring developments" in the mobile wireless industry. See *Eighth Broadband Progress Report* at ¶36 ("Our report includes two sources of mobile data—SBI Data and Mosaik Solutions (Mosaik Data). Although these data provide a useful tool for measuring developments in mobile broadband deployment, we have concerns that they overstate the extent of mobile broadband coverage meeting our speed benchmark."). RTG previously expressed the same concerns over the reliance on Mosaik data to determine which areas are eligible for Mobility Fund Phase I support. See RTG Comments, WC Docket No. 10-90 et al., at 7-9 (filed Jan. 18, 2012); RTG Reply Comments, WC Docket No. 10-90 et al., at 4 (filed Feb. 17, 2012); Letter from Caressa D. Bennet, RTG, General Counsel, to Marlene H. Dortch, Secretary, FCC, AU Docket No. 12-25 (Feb. 10, 2012). See also Comments of the Blooston Rural Carriers, WC Docket No. 10-90 et al., at 18 (filed Jan. 18, 2012 (stating that the American Roamer data is not accurate enough to be used as the only factor for determining an area's eligibility)).

<sup>8</sup> See RTG Comments, WC Docket No. 10-90 et al., at 2-3 (filed Feb. 24, 2012).

While there do not appear to be any data sources “superior”<sup>9</sup> to Mosaik, the Commission will ultimately have to rely on this source of data. Because such data will inevitably be flawed, the Commission should again allow challenges to the Commission’s determination of whether an area is eligible for support, as well as challenges or rebuttals to other carriers’ claims of service availability. This is even more critical when the FCC seeks to determine which areas have subsidized service and which areas have unsubsidized service because neither Mosaik nor any other entity tracks such information. As early as possible, the Commission should release a list of census blocks where an unsubsidized carrier is providing 3G or better service, along with a list of census blocks that lack 3G or better service from an unsubsidized carrier, to allow carriers to determine which areas are both unserved by 3G and subsidized.

In Phase I, roughly one month was provided for carriers to submit challenges and replies to challenges to the coverage area database of proposed eligible census blocks.<sup>10</sup> RTG anticipates that more time will be needed for Phase II because the subsidized and unsubsidized coverage areas will need to be evaluated for accuracy. RTG requests that the FCC allow 45 days for comments and 30 days for reply comments for carriers to weigh in on the data being used and to correct errors in the data. During the Phase II process, the FCC must provide enough time for carriers to challenge the initial classification of an area as eligible or not eligible, and respond to challenges made by competing carriers concerning the availability and level of wireless services within a carrier’s service area. A report by carriers actually operating in or near the geographic

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<sup>9</sup> *Further Inquiry* at ¶8 (seeking comment on whether there are any alternate data sources “superior” to Mosaik).

<sup>10</sup> *Mobility Fund Phase I Auction, Limited Extension Of Deadlines for Comments and Reply Comments on Census Block Eligibility Challenges*, AU Docket No. 12-25, Public Notice, DA 12-236 (Feb. 16, 2012).

areas at issue after a thorough review will provide the Commission with a credible basis to declare which areas should be eligible for Phase II support.

### **III. THE COMMISSION SHOULD MAKE ADJUSTMENTS TO THE CENTROID METHOD.**

Under the centroid method, a census block will be eligible for Mobility Fund support if its centroid (geometric center) is not covered by 3G or better mobile wireless services. The centroid method was used in Phase I, but its use must be modified for Phase II in order to ensure accurate disbursement of funding. After working with census blocks in rural areas, RTG members discovered that when rural Americans live along rivers, around lakes, and along seaside areas, census blocks are elongated leaving large areas that are unserved even when the middle of the census block is “served.” Additionally, there are large census blocks that have the centroid covered, but leave large swaths uncovered.

The Commission should allow bids for census blocks where the centroid is covered, but large portions of the census block are not covered. In such census blocks, coverage can be spotty and consumers consider the area essentially unserved. In the *Further Inquiry*, the Bureaus specifically ask for comment on the use of a proportional method in which a census block would be considered unserved if the data indicates that more than 50 percent of the area is unserved.<sup>11</sup> RTG supports the use of a proportional exception to the centroid method. In cases where 50 percent or more of a census block is unserved, even though the centroid is covered, the entire census block should be classified as unserved and eligible for bidding to occur. In cases where census blocks are geographically large (*e.g.* over 300 square miles), it is in the public interest to classify these blocks as eligible if 40 percent or more of the census block is unserved, even though the centroid is covered. RTG suggests the Commission give carriers a period of time in

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<sup>11</sup> *Further Inquiry* at ¶9.

which to identify such areas. For instance, during the period for challenging eligible census blocks, carriers could identify “centroid exceptions.” These areas would then be deemed eligible at completion of the comment period if no objections are made.

#### **IV. THE COMMISSION SHOULD ESTABLISH A PHASE II TERM OF SUPPORT AND PUBLIC INTEREST OBLIGATIONS THAT PROVIDE CERTAINTY TO RURAL CARRIERS.**

The Commission should adopt a support term that will provide carriers with enough certainty to make long-term business plans. Because ongoing Phase II support is aimed at sustaining *and* expanding mobile services,<sup>12</sup> the support term should be related to the way carriers account for and depreciate costs. Generally, RTG supports a term of not less than ten years because it will coincide with the same timeframe used by rural carriers to plan and schedule network upgrades and improvements.<sup>13</sup> The Communications Act requires that universal service support mechanisms be specific, predictable and sufficient.<sup>14</sup> The Commission should refrain from adopting any more-stringent performance obligations that take effect during the latter part of the Phase II term of support because there are too many varying factors that could affect a carrier’s ability to meet such obligations. Rather, the Commission should have any such rule changes go into effect only after the completion of the initial term of support. RTG urges the Commission to initiate a rulemaking process to establish any new performance requirements at least three years prior to the end of the initial term so that carriers can plan and prepare for the next phase of support (*i.e.*, Mobility Fund Phase III).

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<sup>12</sup> *Id.* at ¶2.

<sup>13</sup> RTG Comments, WC Docket No. 10-90 et *al.*, at 19 (filed Jan. 18, 2012).

<sup>14</sup> 47 U.S.C § 254(b)(5).

**A. The Phase II Term of Support Should Be Tied to the Way Rural Wireless Networks are Planned, Built, and Operated**

In the *USF/ICC Transformation Order*, the FCC established Phase II of the Mobility Fund to “provide ongoing support for mobile services in areas where such support is needed.”<sup>15</sup> However, in the *Further Inquiry*, the FCC has stated that Phase II support is “aimed at expanding *and* sustaining mobile services.”<sup>16</sup> Phase II recipients will be required to not only use support to sustain already available service, but also to expand service, build out their available coverage area, and upgrade their network technology. Phase II will support networks that operate in high-cost, hard to serve rural areas. Therefore, the term of support must coincide with the way rural carriers plan, build, and operate their networks.

Rural networks are vastly different than urban networks, in terms of the types of areas served and the way networks are built, operated, and improved. In urban areas and other more densely populated areas, carriers can easily build out their coverage areas and tend to concentrate more resources on increasing the speed and improving the technology of their networks. On the other hand, RTG’s members and other rural carriers serve areas that are large and sparsely populated. Generally, RTG’s members continually seek to increase coverage and are slower than their urban counterparts about introducing faster speeds and new technologies. For example, many RTG members are just beginning to upgrade to 3G networks and only a handful have begun to build out 4G networks in more populated rural areas. Meanwhile, their urban counterparts are touting 4G and turning down their 2G networks.<sup>17</sup>

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<sup>15</sup> *USF/ICC Transformation Order* at ¶493; *see also Id.* at ¶1121 (“This FNPRM addresses specifically the second phase of the Mobility Fund, which provides ongoing support for mobile broadband and high quality voice services.”).

<sup>16</sup> *Further Inquiry* at ¶2 (*emphasis added*).

<sup>17</sup> *See e.g.* AT&T Securities and Exchange Commission Form 10-Q for quarterly period ended June 30, 2012 (stating that AT&T expects to fully discontinue service on its 2G networks by

Setting the term of support at not less than ten years will place Phase II disbursements in line with the way rural networks are planned and operated. The estimated useful life of rural wireless networks is generally longer than for urban networks because the return on investment for rural networks is much longer than for urban networks. The Commission can look at rural carriers' wireless asset depreciation schedules to get a sense of how rural networks are planned and operated. For example, RTG polled its members and determined that the estimated useful life of base transceiver stations ranges from five years to seven years, the estimated useful life of poles and towers is 15 years, and the estimated useful life of cellular switching equipment is roughly ten years. Buildings and other structures used to support rural wireless networks have an estimated useful life of 20 to 30 years. As such, RTG's members support a ten year period for Phase II disbursements to allow time for recovery of the investment and expected useful life of the network.

**B. Build-Out Requirements Should Be Adjustable and Disbursements Should Be Made on a Monthly or Quarterly Basis.**

As RTG has previously noted, wireless network construction schedules are easily hampered by things like weather, access to rights-of-way, equipment availability, and tower siting issues.<sup>18</sup> Further, for rural networks, access to capital can be difficult. The build out requirements and service requirements that are ultimately adopted by the FCC must have some flexibility built into them. The FCC should adopt a phased 4G deployment schedule that contains yearly benchmarks, while retaining the flexibility to adjust benchmarks if there are circumstances beyond a carrier's control.

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approximately January 1, 2017); Fierce Wireless, *Updated: Verizon Wireless to sunset 2G and 3G CDMA networks by 2021* Carrier to move customers onto LTE network (Oct. 10, 2012).

<sup>18</sup> RTG Comments, WC Docket No. 10-90 et al., at 19 (filed Jan. 18, 2012).

Up to this point, the Commission has been unclear on how it proposes to disburse support payments for Phase II. It has stated that “Phase II support is not one-time support, but is ongoing Phase II support aimed at expanding and sustaining mobile services.”<sup>19</sup> RTG proposes that the Commission consider splitting up funding – one amount for buildout and network upgrades and another amount designated for supporting sustained operations. The Commission also should consider different benchmarks for “expanding” mobile services and “sustaining” mobile services. Regardless of how the Commission ultimately decides to handle disbursements for buildout (“capex”) and ongoing operational expenses (“opex”), the Commission should ensure that the funds are distributed on a monthly or quarterly basis based on a winning carrier’s bid, similar to how the Universal Service Administrative Company (“USAC”) currently handles universal service support payments.

### **C. Performance Obligations Should Evolve on a 10 Year Cyclical Basis.**

The Commission has proposed that, among other performance requirements, recipients of Mobility Fund Phase II support provide voice service and 4G mobile broadband services at a minimum bandwidth or data rate of 768 kbps downstream and 200 kbps upstream, consistent with the capabilities offered by representative 4G technologies.<sup>20</sup> The Commission also proposed that the required performance characteristics evolve over time. RTG believes the proposed Phase II performance requirements are reasonable. Clearly, any modification of performance requirements must be made through a Commission rulemaking to ensure that the FCC is complying with the Administrative Procedure Act and statutory requirements that

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<sup>19</sup> *Further Inquiry* at ¶2.

<sup>20</sup> *See Further Inquiry* at ¶14 (citing *USF/ICC Transformation Order* at ¶¶1141-43).

universal service mechanisms be specific, predictable, and sufficient.<sup>21</sup> But, the Commission should refrain from adopting any performance obligations that take effect during Phase II. Carriers will place bids in the Phase II auction based on a determination that they can meet the initial performance metrics, but because it is impossible for carriers to know now if they will be able to keep pace with any future, heightened performance requirements, it would be unfair to subject them to requirements that did not exist at the time they formulated their bids.

To resolve this dilemma, RTG proposes that the FCC conduct a proceeding five years into the first 10 year period to establish the performance requirements, spectrum needs, and overall fund availability to prepare for the next 10 year support period utilizing the next generation of technology (*i.e.*, 5G). Considering that each generation of wireless technology has lasted 12 – 15 years with overlap among technologies, a ten year cycle makes the most sense. In the 1980's, analog technology was introduced, and in the 1990's, digital or 2G technology was introduced. Eight years ago, 3G technology became available. In 2010, 4G technology was introduced. Given this timetable, RTG anticipates 5G technology being introduced commercially by 2018, with it trickling to rural markets by 2021. As such, the standard and performance requirements for Mobility Fund Phase II should be established and disbursed for 4G technology performance standards that exist today. Evolving performance requirements should be handled in a future auction for Mobility Fund Phase III.

#### **D. New Performance Obligations May Require Additional Spectrum**

Another reason the Commission should refrain from adopting any new performance obligations that take effect during Phase II is that meeting new performance obligations may not be possible with the amount of spectrum a recipient has at the time it wins Phase II support.

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<sup>21</sup> See 47 U.S.C. § 254(b)(5).

Expectations must be set well in advance of changes so that additional spectrum can be acquired to meet new obligations. RTG acknowledges that technology evolves and future support recipients should be required to provide services that meet increasing consumer demand for such advanced services. However, attempts to modify the performance requirements in any way during the term of support will not be practical if adequate spectrum is not available. Accordingly, performance requirements must not be modified without taking into consideration the additional spectrum or expensive network upgrades that may be needed to meet such requirements. Again, RTG recommends that performance requirements be established in the future under a separate Mobility Fund Phase III.

**V. THE COMMISSION SHOULD CONTINUE TO USE ROAD MILES AS BIDDING AND COVERAGE UNITS, AND SHOULD EMPLOY ALTERNATIVE METHODS FOR CERTAIN AREAS.**

Similar to Phase I, the Commission has proposed to use road miles as the bidding units in each eligible census block for purposes of comparing bids and assessing performance in Phase II of the Mobility Fund. The FCC would like to revisit the issue, and has asked whether any changes should be made to the use of road miles. RTG supports using as many types of private and public roads as possible, including roads within private mining areas, access roads to natural gas and oil facilities, roads serving ranching areas, and roads serving forestry and logging industries.<sup>22</sup> The use of road miles is consistent with the characteristics and benefits of mobile wireless and reflects the Commission's goal of extending coverage to areas where people live, work, and travel. However, there are places, such as Alaska and vast areas in western states, where the Commission should consider other factors.

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<sup>22</sup> See RTG Comments, AU Docket No. 12-25, at 3 (filed Feb. 24, 2012).

RTG has members in Alaska and remote areas in the western states where roads are nonexistent, but necessary coverage is or should be provided. Census blocks within these areas contain no roads.<sup>23</sup> In these census blocks, the FCC should consider the total square-mileage of the census block and allow the bidder to simply bid on the area to be covered. Bids could be made on a square-mileage basis, meaning support would be given per square mile covered instead of per road mile. Census blocks that lack roads, but where coverage is or should be provided, must be identified before the Commission finalizes its list of eligible census blocks. Such census blocks would then be placed in a separate category and subject to bids on a square-mileage basis.

## **VI. THE COMMISSION SHOULD PRIORITIZE SUPPORT TO CERTAIN AREAS THROUGH THE USE OF BIDDING CREDITS.**

The Commission seeks further comment on prioritizing Phase II support. RTG supports prioritizing support to certain areas and to certain wireless carriers through the use of bidding credits. By making bidding credits available in Phase II, the Commission will be able to target ongoing support to areas that lack coverage, areas that have coverage below 3G, and areas that would lose service absent the receipt of ongoing support. Bidding credits will also help ensure that existing coverage in hard-to-serve areas is not lost. RTG previously advocated for the use of bidding credits in reverse auctions for Mobility Fund support in December 2010.<sup>24</sup> Herein, RTG restates its support for the use of bidding credits in Phase II.

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<sup>23</sup> For example, after working with census blocks during Phase I, RTG members noticed that there are census blocks that do not contain roads because they only cover cemeteries. According to RTG members located in Alaska, many census blocks in Alaska do not contain roads.

<sup>24</sup> See RTG Comments, WC Docket No. 10-90, et al., at 13-16 (filed Jan. 18, 2012); see also RTG Comments, WT Docket No. 10-208, at 11 (filed Dec. 16, 2010). The FCC has used bidding credits in numerous wireless spectrum auctions. Bidding credits awarded to auction participants who qualify as “Designated Entities” (entities such as small businesses, minority or women-owned businesses, and rural telephone companies who the FCC has determined serve the

The Commission should award bidding credits to carriers that meet certain public interest objectives associated with delivering mobile broadband to unserved and underserved areas. Bidding credits will allow the FCC to target Phase II support to areas that lack coverage, areas that have coverage below 3G, and areas that would lose service absent the receipt of ongoing support.<sup>25</sup> As part of the Phase II reverse auction process, a carrier's formal bid should be augmented to reflect bidding credits earned for meeting certain criteria that are deemed in the public interest. These bidding credits would be used to lower a carrier's bid even though the carrier's actual funding may be higher. For example, bidding credits should be awarded for the following:

- Small Business. Bidding credits should be awarded to carriers that are small businesses, i.e., entities with average gross revenues not exceeding \$75 million for the preceding three years. Such entities would receive a 25 percent bidding credit. Alternatively, a small business credit could be available to businesses with fewer than 100 employees or businesses with 100-500 employees.
- Rural Subscriber Coverage. Bidding credits should be awarded to carriers already providing mobile wireless service to rural areas. The size of the credit should increase with the proportion of rural coverage area and the length of time the carrier has served the area (*e.g.*, 100% rural receives the largest credit, 75-99% rural receives the next largest credit, 51-74% rural receives the next largest credit, etc.).
- Rural Service. Bidding credits should be awarded to carriers with a history of offering telecommunications services to rural markets. The size of the credit

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public interest by providing wireless service, as well as entities who would serve the public interest by bringing service to areas in need of it such as tribal lands) allow such entities to place higher bids than they would otherwise, based on the discounts awarded by virtue of holding bidding credits. *See* 47 C.F.R. § 1.2110(f).

<sup>25</sup> Through the use of bidding credits, the FCC has historically achieved its policy goals of encouraging the provision of service to high cost and other difficult to serve areas. For example, in its *Tribal Lands Order*, the FCC adopted bidding credits to provide incentives for wireless telecommunications carriers to serve individuals living on tribal lands, concluding that “properly targeted bidding credits will encourage participation in auctions by carriers who are in a position to provide service to tribal lands, and will help to mitigate the economic risk associated with this type of service.” *See Extending Wireless Telecommunications Services to Tribal Lands*, WT Docket No. 99-266, Report and Order and Further Notice of Proposed Rulemaking, ¶¶1 and 16 (June 30, 2000) (“*Tribal Lands Order*”).

would increase based on the number of years of service (e.g. 1-5 years of service, 6-10 years of service).

- Unserved Areas. Bidding credits should be awarded to carriers who seek to serve unserved areas (e.g., areas where there is no 3G or better service).

Bidding credits based on the above criteria will enable the Commission to target support to carriers that have a long history of serving rural and remote areas and that can leverage existing assets to do so more cost effectively. For example, using the rural service bidding credit, a carrier that has served a specific rural region for at least five years could get a five percent “credit” on its bid, and a carrier serving for at least ten years could get a ten percent credit. Thus, if a carrier providing service for ten years or more bids \$10,000 a road mile, the FCC should consider that a “lower” \$9,000 per road mile bid. RTG believes a reasonable cap should be placed on the amount of available bidding credits any one carrier is eligible to receive. A system of bidding credits like the one RTG proposes will be the easiest way for the FCC to target Phase II support to those who have historically served rural areas.

**VII. FOR RURAL CARRIERS THAT RECEIVE SUPPORT TODAY AND ARE UNSUCCESSFUL AT RECEIVING SUPPORT THROUGH THE PHASE II REVERSE AUCTION, THE COMMISSION SHOULD DETERMINE WHERE TO TARGET SUPPORT USING A COST MODEL.**

Pursuant to the Commission’s universal service reforms, if a carrier is unsuccessful in its attempt to win Phase II support, it will continue to receive legacy support until the phase out is complete. After legacy support is phased out, any such unsuccessful carrier must provide service without universal service support. Many RTG members have reported that they will have to turn off cell sites or even terminate service completely if they are unsuccessful in the Phase II auction. These carriers simply do not have enough voice and data traffic to support the cost of certain cell sites within their networks. The Commission should address this type of scenario by pre-determining which carriers will risk reducing service if they are unsuccessful in Phase II, and

provide them with a type of “safety-net support.” The best way to provide support to these areas is through the use of a cost model.<sup>26</sup> In the alternative, the cost model could be used to determine a “safety-net bidding credit” for networks serving these very high cost areas.

Pursuant to RTG’s proposed cost model, a carrier would receive support for a cell site if the cell site has a level of voice and data traffic that is 50% below an annual “national average.” If a cell site carries an amount of traffic that is 50% below the national average, it indicates there is a lack of business case for providing service in the area. The Mobility Fund was created to ensure mobile wireless services are available in these types of areas.<sup>27</sup> Through a data request, the Commission would determine the national average consumption of voice and data for a single cell site. Samplings would come from a cross-section of U.S. mobile wireless carriers, including large and small carriers, carriers that serve urban areas, and carriers whose networks cover sparsely populated areas. The national average would be recalculated on an annual or bi-annual basis. If the average usage for all cell sites of a carrier’s network is below the national average, the carrier is eligible for cost model safety-net support, or in the alternative, a safety-net bidding credit. Cost model safety-net support would be based on the actual costs of deploying and maintaining mobile wireless networks in high-cost, rural areas. A safety-net bidding credit would allow a 50% reduction in the carrier’s bid for those census blocks that are served by cell sites whose average use is below the national average as discussed above. If the carrier’s

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<sup>26</sup> RTG previously supported the use of a cost model to craft an auction exemption for Tier IV carriers that have a committed service record in rural areas and an established need for continued high-cost support. RTG Reply Comments, WC Docket No. 10-90 et al., at 14-16 (filed Feb. 17, 2012).

<sup>27</sup> As part of broader universal service reforms, the Commission “create[d] the Mobility Fund, the first universal service mechanism dedicated to ensuring availability of mobile broadband networks in areas where a private-sector business case is lacking.” *USF/ICC Transformation Order* at ¶28.

average usage equals or exceeds 50% of the national average, then the carrier would not be eligible.

There are many rural areas throughout the U.S. that are served by a single wireless carrier. In these areas, mobile wireless networks were built, and are currently sustained, using legacy universal service support. These areas have low population densities, and even the cell sites that are most heavily used have less usage than the national average. It is likely that many of these same types of areas received support from Phase I of the Mobility Fund. Continued support will undoubtedly be needed to continue providing much needed mobile services. It is imperative that the Commission considers such situations before finalizing the Phase II process and reserves funding to ensure that these cell sites are not turned down, or alternatively, provides for a safety-net bidding credit for those census blocks served by such cell sites.<sup>28</sup>

## **VIII. CONCLUSION.**

In the *USF/ICC Transformation Order*, the FCC eliminated the identical support rule, putting mobile wireless carriers on a steep transition toward zero universal service support. Over the years, that ongoing support has allowed many rural carriers like RTG's members to operate and expand networks in hard-to-serve, rural areas. These wireless networks provide mobile voice and data services to rural consumers and those traveling throughout rural areas. A successful Phase II of the Mobility Fund is crucial to rural wireless carriers and consumers and the ability of consumers to access mobile wireless services everywhere they go. To achieve the Commission's universal service goals, it is critical that Phase II is structured in a manner to ensure that Phase II support is used to maintain and expand operations in hard to serve areas.

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<sup>28</sup> In the *USF/ICC Transformation Order*, the FCC recognized that there are areas that are served by a single wireless carrier, and such a carrier "might reduce coverage if it fails to win ongoing support within [the Phase II] \$500 million budget." *USF/ICC Transformation Order* at ¶496.

RTG members have extensive experience in serving such areas, and RTG respectfully requests that the Commission follow the recommendations set forth herein.

Respectfully submitted,

**RURAL TELECOMMUNICATIONS GROUP, INC.**

By: */s/ Caressa D. Bennet*

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Caressa D. Bennet  
Anthony K. Veach  
Bennet & Bennet, PLLC  
6124 MacArthur Boulevard  
Bethesda, MD 20816  
(202) 371-1500

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