Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	WC Docket No. 10-90
Connect America Fund	)	
	)	

REPLY COMMENTS OF GENERAL COMMUNICATION, INC.
ON DESIGN OF THE REMOTE AREAS FUND

General Communication, Inc. ("GCI") hereby replies to comments filed in response to the Wireline Competition Bureau's Public Notice regarding the design of the Remote Areas Fund ("RAF").[1] In discussing Alaska's need for middle-mile investment, the Alaska Rural Coalition ("ARC") underscored GCI's point that connecting communities—which requires middle-mile deployment—is different from connectivity to individuals.[2] To the extent that the Commission envisioned the RAF as providing broadband connectivity—for example, through satellite service—to highly dispersed individuals not concentrated in a community, it will not focus on community needs. In particular, it will not provide low latency connections needed by rural health clinics, schools, and potentially public safety. The Commission cannot reasonably expect direct-to-home satellite—with Commission-documented latencies over 600 milliseconds—to meet these community needs.[3]

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1 *See Wireline Competition Bureau Seeks Further Comment on Issues Regarding the Design of the Remote Areas Fund*, Public Notice, DA 13-69, 28 FCC Rcd. 265 (2013) ("*Public Notice*").

2 *See* Comments of the Alaska Rural Coalition, at 6-7, WC Docket No. 10-90 (filed Feb. 19, 2013) ("ARC RAF Comments").

3 *See Measuring Broadband America—February 2013: Consumer wireline broadband performance in the U.S.*, FCC Office of Engineering and Technology and Consumer and

These commenters also shared GCI's frustration in trying to comment on the proper design for the RAF without a comprehensive firm picture of the rest of the CAF support mechanisms, including CAF Phase II, Mobility Fund Phase I, and Tribal Mobility Fund Phases I and II, and any rate-of-return CAF. Alaska Communications Systems Group ("ACS") manifests that frustration by asking that the RAF be postponed until after CAF Phase II (for price cap ILEC areas) is finalized.[4] The ARC similarly notes that "it will prove difficult for Alaska parties to definitively determine the appropriate scope of RAF funding for Alaska until the parameters and distribution of CAF Phase II funding, Mobility funding and Tribal Mobility funding have been established."[5] GCI reiterates its warning that proceeding with each of the several CAF mechanisms on concurrent but uncoordinated paths, risks creating a hodgepodge of measures that will leave many Alaskans with no prospect for broadband service that is even remotely comparable to service in the Lower 48.

I. WHILE ADDITIONAL SUPPORT TO ENSURE THAT ETCS CAN PURCHASE ADEQUATE MIDDLE-MILE CAPACITY WOULD BE HELPFUL, THE FIRST PRIORITY IS TO STABILIZE ALASKA'S HIGH COST SUPPORT.

As commenters make clear that, in the long term, Alaska must develop a more robust middle-mile network.[6] With private capital supplemented by BIP grant and loan, GCI (and its subsidiary United Utilities, Inc.) have made a good start with its TERRA-SW project which will soon extend as far north a Nome and Kotzebue due to additional private investment by GCI. But

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Governmental Affairs Bureau, at 11, *available at* http://transition.fcc.gov/cgb/measuringbroadbandreport/2013/Measuring-Broadband-America-feb-2013.pdf (ViaSat had a measured latency of 638 milliseconds).

4 *See* Comments of Alaska Communications Systems Group, at 1, WC Docket No. 10-90 (filed Feb. 19, 2013).

5 ARC RAF Comments at 14.

6 *See* Comment of General Communication, Inc., at 2-4, WC Docket No. 10-90 (filed Feb. 19, 2013); ARC RAF Comments at 6-7.

this investment—which was and remains highly risky even with RUS's grant and loan—can only be the beginning. It is critical for GCI, one way or another, to be able to close TERRA into a ring, which will allow it to double the capacity on its microwave network as traffic will be able to flow in both directions back to Anchorage.

Although ARC points to the RAF as the middle-mile solution, this is not really correct unless one assumes that all existing support remains. While $25 million per year would certainly help, the first priority for ensuring the continued development and deployment of Alaska's middle-mile networks is to stabilize Alaska's high cost funding. Already, as of July 1, 2013, Alaska will have seen its CETC high cost USF support reduced by $18 million per year.[7] Rate-of-return ILEC have also seen some additional high cost support reductions as compared with 2011 levels. And this does not even include revenue reductions to Alaska carriers from the intercarrier compensation changes. While GCI will likely receive some additional Mobility Fund Phase I support and ACS will receive some CAF Phase I support, these one-time support distributions will, at most, only offset a quarter of the aggregate reductions to the state. And if Alaska CETCs were to obtain the same share of Mobility Fund Phase II as they did of Mobility Fund Phase I (which would amount to approximately $5 million per year), high cost support to Alaska would drop by another $100 million *per year*. Even if Alaska were to come out of the Mobility Fund Phase 2 and Tribal Mobility Fund Phase 2 processes with the same amount of support as is currently distributed under the Remote Alaska Cap, Alaska would still see another

[7] *See* Frozen High Cost Support, Price Caps-Rate of Return Affiliates and CETCs, *available at* http://www.usac.org/_res/documents/hc/pdf/Frozen-High-Cost%20Support-021512.pdf (listing frozen high cost support amounts as of January 1, 2012). CETC service areas listed by USAC as "AN" under "State" will receive only 60% of the frozen support amount as of July 1, 2013.

$27 million per year in high cost support shifted from Alaska to the Lower 48. This is hardly an environment that will sustain Alaska middle-mile development.

So while the $25 million per year that ARC proposes for supporting middle-mile would be helpful if added to current levels of Alaska high cost support, it will be wholly inadequate if the overall changes to the other support mechanisms transfer high-cost support that Alaska currently receives to Lower 48 providers. GCI has already documented that Alaska's existing CETC high cost support as of July 1, 2013 cannot close the gap between the incremental costs and the incremental revenues of upgrading Alaska to mobile broadband service even at just 786 kbps download and 256 kbps upload. Net of incremental revenues, The Brattle Group estimated the incremental costs of upgrading Alaska to 768 kbps down and 256 kbps, less incremental revenues, at a five year net present value of $532 million (or $132 million per year over five years).[8] By contrast, the $105 million in annual CETC high cost support that Alaska will receive as of July 1, 2013 only has a five year net present value of $426 million.[9] There is no question that Alaska has more universal service "need" than the amount of support it currently receives, or will receive as of July 1, 2013.

II. ANY MIDDLE-MILE SUPPORT SHOULD SUPPORT ETC PURCHASES, RATHER THAN FUNDING SPECIFIC CONSTRUCTION PROJECTS.

ARC appears to propose that the Commission use $25 million from the RAF to fund specific Alaska middle-mile construction projects. This approach is too inflexible, and would require the Commission to run grant programs similar to NTIA's Broadband Technology

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8 *See* Letter from John T. Nakahata, Counsel, General Communication, Inc., to Marlene H. Dortch and Katie King, Federal Communications Commission, Attachment at 23, WC Docket No. 10-90 (filed Feb. 15, 2013) ($596 million in incremental costs, less $63.5 million in anticipated incremental revenue, amounts to a net shortfall of incremental costs over incremental revenues of $532 million, as estimated by this model.).

9 *See id.*, Attachment at 6.

Opportunities Program or the RUS' Broadband Infrastructure Program. The Commission and USAC are not well-suited to run such competitive grant programs, and in any event, distributing this support solely as grants would fail to leverage private capital. A construction grant program also subjects the Commission to risk of loss, or of funding an unsuccessful white elephant. Similarly, as GCI has previously stated, it does not make sense to put middle-mile into the RLEC ratebase, as these entities in Alaska have no experience in providing middle-mile service and proceeding in that manner would exclude providers such as AT&T, ACS, and GCI from providing backhaul because they could not comparably place such assets in a rate-of-return ratebase.[10]

A much better approach is the one taken with the rural healthcare and E-Rate program, in which the purchaser is provided a subsidy off of the otherwise prevailing price.[11] This allows the market to select the provider and leaves to the market the task of funding infrastructure construction and determining when additional facilities are necessary. It also leaves the supported purchaser empowered to select the most appropriate and cost-effective technological

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[10] Comments of General Communication, Inc., with Respect to Sections XVII.A-K of the Further Notice of Proposed Rulemaking, at 9-12, WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208 (filed Feb. 17, 2012).

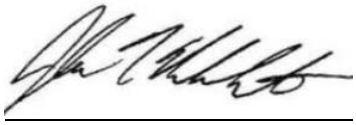
[11] ARC also insinuates that GCI's TERRA prices should be "cost-based", apparently suggesting that some kind of heavy-handed price regulation be imposed. ARC RAF Comments at 8-9. That would be counterproductive, as it would discourage any future investment in middle-mile facilities, particularly by imposing price regulation after a competitive grant process had been conducted, including submission of proposed rates to the Rural Utility Service so that they could ensure that there was an adequate assurance for loan repayment, and after facilities have been constructed. Notably, GCI's current prices are below those that were submitted to RUS as part of the Broadband Infrastructure Program application. It is also notable that the other middle-mile proposal for western Alaska submitted in the BTOP/BIP program would have been far more costly. *See* Northern Fiber Optic Link (NFOL): Connecting America, Kodiak-Kenai Cable Company, LLC, Executive Summary, *available at* http://www.ntia.doc.gov/legacy/broadbandgrants/applications/summaries/182.pdf.

solution. Some might choose satellite, if that was cheaper than terrestrial, while others might have a specific need for terrestrial backhaul, for example, because of latency.

III. CONCLUSION

For Alaska, the Commission needs to consider carefully what it expects to achieve through the RAF. Connecting isolated individuals to broadband is not the same project as connecting isolated communities. For connecting Alaska's isolated communities, the Commission should first stabilize Alaska's overall high cost support, then look at providing the additional support necessary to complete the job of connecting communities to broadband.

Respectfully submitted,



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