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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; *High-Cost Universal Service Support*, WC Docket No. 05-337

Dear Ms. Dortch:

General Communication, Inc. ("GCI") follows up on its proposal for a better reform path for mobile services in Alaska, as it initially outlined in ex partes filed in January 2014.[1] GCI asks that the Commission consider these proposals as part of its upcoming Further Notice of Proposed Rulemaking with respect to Mobility Fund Phase II. The proposals we present here may also help the Commission better address and clarify issues that have arisen with respect to the implementation of the Connect America Fund Phase II, particularly with respect to fixed service providers that are currently receiving CETC support that is scheduled to be phased out. This proposal is an integrated whole to promote mobile voice and broadband deployment in Alaska.

When the Commission adopted the *Transformation Order*,[2] it recognized that Alaska's wireless infrastructure significantly lagged the rest of the country, especially the areas outside of Alaska's three largest communities—Anchorage, Fairbanks, and Juneau. These remote areas in particular had been the principal focus of the Covered Locations exception to the 2008 CETC support cap—a policy that the Commission recognized had led to expanded mobile coverage throughout Alaska's Tribal Lands.[3] Indeed, from 2008 to 2011, GCI added service to 110

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1 Ex Parte Letter from John T. Nakahata, Counsel, General Communication, Inc., to Marlene H. Dortch, Secretary, FCC, WC Docket Nos. 10-90 & 05-337 (filed Jan. 24, 2014); Ex Parte Letter from John T. Nakahata, Counsel, General Communication, Inc., to Marlene H. Dortch, Secretary, FCC, WC Docket Nos. 10-90, 05-337 & 13-184 (filed Jan. 27, 2014); Ex Parte Letter from John T. Nakahata, Counsel, General Communication, Inc., to Marlene H. Dortch, Secretary, FCC, WC Docket Nos. 10-90, 05-337 (filed Jan. 30, 2014).

2 *Connect America Fund, et al.*, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, 26 FCC Rcd. 17,663 (2011)("*Transformation Order*").

3 *Id.* at 17,835 ¶ 528.

Remote Alaska communities, many of which had not previously had modern mobile wireless voice service.

Accordingly, in the *Transformation Order*, the Commission deferred the CETC legacy support phasedown in Remote Alaska—outside of Anchorage, Fairbanks and Juneau—for all CETCs that had been certifying that they served Covered Locations—all Alaska CETCs other than AT&T.[4] For Remote Alaska, this phasedown was deferred until the Commission implemented both Mobility Fund Phase II and Tribal Mobility Fund Phase II, so that legacy support would not be reduced in these areas—many of which are unambiguously high cost with very small subscriber populations—prior to a successor mechanism. As implemented, Remote Alaska high-cost support is currently capped at just under $78 million per year.

When the Commission adopted the *Transformation Order*, however, it had no good estimates of even the incremental cost of deploying 3G tor 4G mobile voice and broadband service throughout Alaska to those communities that were not going to receive that level of service from the operation of the market without subsidies. GCI therefore asked the Brattle Group to develop an estimate of the incremental cost of bringing all areas not already receiving mobile voice and broadband service at a downlink speed of 768 kbps and an uplink speed of 256 kbps.[5] As of February 2013, the incremental costs of doing so—including capital and five years of operating costs—was a net present value of $596 million, with projected offsetting incremental revenues of a net present value of $63.5 million. This left a gap of a net present value of $532.5 million that would need to be filled by high cost support. By contrast, the net present value of the existing $78 million annual Remote Alaska support is just $315.6 million. Thus, we can now state with assurance that the existing level of Remote Alaska support—if that continued through the Mobility Fund Phase II and Tribal Mobility Fund Phase II mechanisms—would be insufficient to deliver mobile voice and broadband service at 768/256.

Even with the anticipated one-time distribution of approximately $43 million in Mobility Fund Phase I and Tribal Mobility Fund Phase I support, the Alaska mobile support gap will remain significant—a five-year net present value of approximately $490 million versus Remote Alaska support of a five-year net present value of $315.6 million. By comparison, the net present value of five years of all Alaska CETC support, including all non-Remote Alaska support (which is currently at approximately $105 million per year)—is approximately $426 million. And this is without considering whether the actual speed goals should be LTE-based goals, which would substantially increase backhaul costs.

Furthermore, the experiences of the Mobility Fund Phase I and Tribal Mobility Fund Phase I auctions demonstrate the extreme variability—and therefore risk—that nationwide

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[4] *Id.* ¶ 529.

[5] By incremental costs, we mean that we took as given, and fully covered by existing subscriber revenue, all the costs of providing existing services. That is clearly not the case for some areas, but it was a simplifying assumption that made Brattle's costs and necessary support estimates conservative.

reverse auctions hold for Alaska wireless providers. Alaska was spectacularly unsuccessful in Mobility Fund Phase I, garnering only about 1% of the available support, but preliminarily has won approximately 82% of the Tribal Mobility Fund Phase I support. This type of variability creates completely unstable planning environment for carriers operating in a market in which high cost support is critical to supporting rural networks. Moreover, even if Alaska were to replicate its Tribal Mobility Fund Phase I success in Tribal Mobility Fund Phase II,[6] that would mean that Alaska would receive $87 million—which is less than Alaska CETCs receive today and, as discussed above, is insufficient to deploy and operate 786/256 mobile voice and broadband service.

In light of this data and experience that was not available at the time of the *Transformation Order*, GCI suggests the following as a more reasonable transition plan for Alaska that still accomplishes the *Transformation Order*'s goals to distribute high-cost support on a more targeted and accountable basis over the next five years, assures continued services and the prospect of improved services during that time, and allows for the development of a successor mechanism informed by the experience of deploying and providing services funded by the intermediate MF Phase I and TMF Phase I.

1. Remove Alaska from Mobility Fund Phase II and Tribal Mobility Fund Phase II and establish a separate Remote Alaska Fund into which all Alaska CETC Support Migrates Over Time. Doing so at current support levels stops the diversion of support out of Alaska when Alaska has pronounced and documented needs.[7] Alaska has already seen its annual CETC support drop by approximately $18 million as compared with 2011. This approach of setting aside a specific amount of support for Alaska is justifiable because Alaska is much less likely to see widespread deployment of LTE or even HSPA+ driven by the market alone.[8]

2. Restart the CETC transition for all Alaska Non-Remote CETC Support for Fixed Lines Effective July 1, 2014, and Increase the Remote Alaska Cap (Currently $78 million) to Offset the Phasedown of Alaska Non-Remote CETC Support. This allows the Non-Remote Alaska phasedown for fixed lines to continue uninterrupted, rather than pausing on July 1, 2014 until Mobility Fund II and Tribal Mobility Fund II are implemented. By shifting this support to increase the cap on the Remote Alaska Fund, CETC support is retargeted from Alaska's three largest communities to Remote Alaska.

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[6] GCI believes such a result is highly unlikely and that competition for Phase II support will be much stronger than it was for Phase I, given that Phase I consisted of one-time additive support, rather than a complete replacement of existing legacy support.

[7] *See* Letter from Jim Rowe, Alaska Telephone Association, to Hon. Thomas Wheeler, WC Docket No. 10-90; WC Docket No. 05-337 (Feb. 25, 2014) (urging the FCC to set aside the current amount of Alaska CETC support for distribution in Alaska).

[8] Mechanically, the separate Remote Alaska Fund would have a support cap that is the same as today's Remote Alaska Fund. The cap would then increase as set forth in #2, below, as Alaska Non-Remote CETC support was reduced.

3. Freeze all Alaska Non-Remote CETC Support at Current Levels (60% of 2011), Until a Successor Mechanism is Established and Implemented in July 2019. This allows all wireless support statewide to transition at that same time to a new mechanism. This is important because the legacy per line support amounts are too low to support 786/256 service in some areas, and may be more than necessary in other areas. Addressing only one part of the distribution issues without addressing them all risks undersupporting the overall network statewide.

4. Begin to Phasedown all Remote Alaska Support for Fixed Lines Over Five Years, Effective July 1, 2014. This further rationalizes the Remote Alaska Fund, transitioning it to a Remote Alaska Mobile Fund over five years.

5. At the End of Five Years (i.e. July 1, 2019), Transition the then Remote Alaska Mobile Fund from the Current Per-Line Distribution Mechanism and the Frozen Non-Remote Mobile Support to A Successor Mechanism. The successor mechanism would be appropriately tailored to Alaska, but would have the advantage of learning from the implementation of Mobility Fund Phase II and Tribal Mobility Fund Phase II in the Lower 48, if the Commission maintains those mechanisms, or whatever other mechanism the Commission uses in the Lower 48. Alaska will also have had further time to allow its mobile voice and broadband market to mature, including completion of the Mobility Fund Phase I and Tribal Mobility Fund Phase I deployments, seeing how and where middle-mile networks continue to evolve, and gaining better data as to which areas will be served without high-cost support. This would also allow Alaska to migrate toward a single voice-capable air interface, ensuring that consumers can roam statewide.

As should be evident, the purpose of this proposal is not to avoid reform, but to embrace it. However, given the combination of the magnitude of investment needed in Alaska and the documented continued high cost of upgrading and delivering mobile voice and broadband service in Remote Alaska communities, it is critical that the transition from the current high-cost support distribution mechanisms to new ones occur in a way that gives all Alaska mobile service providers a stable and predictable environment within which to make those investment decisions. Pulling Alaska out of Mobility Fund Phase II and Tribal Mobility Fund Phase II substantially reduces the volatility of the investment environment. In addition, not attempting now to design and implement a reverse auction for mobile CETC support in Alaska also provides a more stable setting for network investment.

GCI respectfully requests that the Commission seek comment on this proposal as part of its upcoming further notice of proposed rulemaking with respect to the Phase II Mobility Funds.

Sincerely,

Tina Pidgeon
General Counsel and Senior Vice President, Governmental Affairs

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