April 23, 2015

Via ECFS

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

RE: Notice of Ex Parte Presentation

Updating Part 1 Competitive Bidding Rules, WT Docket No. 14-170;
Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions, GN Docket No. 12-268;
Implementation of the Commercial Spectrum Enhancement Act and Modernization of the Commission’s Competitive Bidding Rules and Procedures, WT Docket No. 05-211;
Universal Service Reform – Mobility Fund, WT Docket No. 10-208

Dear Ms. Dortch:

On April 21, 2015, the undersigned, along with Shawn Hanson of Panhandle Telephone Cooperative, Inc. (“PTCI”), and John Nettles of Pine Belt Telephone Company, Inc. (“Pine Belt”) met with Priscilla Delgado Argeris, Senior Legal Advisor to Commissioner Rosenworcel. PTCI and Pine Belt, through subsidiaries, own and operate facilities-based mobile wireless networks that serve rural areas, and both are interested in obtaining low-band spectrum in the forthcoming 600 MHz Broadcast Incentive Auction (“Incentive Auction”). During the meeting, PTCI and Pine Belt discussed their concerns regarding the poor results for rural bidders and consumers in the auction for AWS-3 licenses (“Auction 97”), the need to revise the FCC’s designated entity (“DE”) rules, their support for a Rural Telephone Company Bidding Credit (“Rural Telco Bidding Credit”) in the Incentive Auction, and the need for a robust Mobility Fund Phase II.

DE Rules and Rural Telco Bidding Credit

Despite being a financial success, and significant participation by rural carriers, Auction 97 yielded dismal results for rural bidders and their subscribers. Of the 70 qualified bidders in the auction, over half (38 or 54.3%) were rural telcos or rural telco affiliates, yet only 28.9% of these rural entities were successful in winning any licenses. Many rural bidders were completely shut out, and those that were successful won only 25 of 1,611 licenses (1.55%). In addition to
competing against nationwide carriers with unlimited resources, rural bidders also competed against what have been called “Special Purpose Designated Entities” – shell companies that are created by giant corporations solely to game the system and secure small business bidding credits at auction. Less than half of the successful rural telco bidders in Auction 97 were able to qualify under the Commission’s designated entity rules as small businesses, and at the close of the auction rural bidders accounted for less than $1 million ($871,350 or 0.024%) of the total $3.57 billion in bidding credits awarded.

To prevent similar results in the Incentive Auction, and ensure that the Commission meets its statutory obligation to ensure that rural telephone companies have the opportunity to meaningfully participate in the provision of spectrum-based services,1 PTCI and Pine Belt support the adoption of a Rural Telco Bidding Credit. Specifically, PTCI and Pine Belt support the recent joint proposal made by the Rural Wireless Association, Inc., NTCA – The Rural Broadband Association, and the Blooston Rural Carriers that the Commission offer a 25% bidding credit – equal to the average credit available to small businesses – to all rural telephone company bidders and their subsidiaries/affiliates in future spectrum auctions.2 This credit would allow a qualified rural telephone company to take a 25% reduction in the gross winning bid for any geographic licenses that overlap the rural carrier’s wireline or wireless service area. The Rural Telco Bidding Credit would be independent of, and cumulative with, any small business bidding credits for which a rural telephone company bidder may be eligible.

PTCI and Pine Belt then noted that a Rural Telco Bidding Credit is especially important for rural wireless carriers that participate in the Incentive Auction because the Partial Economic Areas that will be used for that auction are larger than the Cellular Market Areas that have traditionally been used for spectrum licenses. Without a Rural Telco Bidding Credit, these large geographic license areas with greater “pops” are likely to be out of reach for many rural carriers. Further, a Rural Telco Bid Credit will ensure that all rural telcos are eligible for DE benefits, as Congress intended. The term “small business” is simply not a surrogate for “rural telephone company.” In Auction 97, 6 of the 11 winning rural bidders did not receive small business bidding credits. Unlike “Special Purpose Designated Entities,” rural telcos are long-standing businesses, with facilities-based networks and historic revenues. It is not feasible for them to restructure their operations and ownership just to qualify for small business bidding credits. Given that the telecommunications industry is very capital intensive and that the nature of the wireless industry has changed significantly since the small business bidding credit was created, PTCI and Pine Belt support increasing the small business bidding credit revenue thresholds. However, during the meeting they warned that simply increasing the revenue thresholds is not a silver bullet. While some rural telephone companies may become eligible for the small business

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1 See 47 U.S.C. 309(j).
bidding credit under the modest increases proposed in the Part 1 NPRM, many will remain ineligible.³

Because “rural telephone company” is a statutory term, and a term defined in the Commission’s rules, the Rural Telco Bidding Credit could be targeted to bona fide DEs. The Commission and the wireless industry learned some very important lessons from Auction 97. The FCC’s DE rules must be revised to prevent the type of abuse that occurred during Auction 97,⁴ but any revisions should not harm legitimate DEs. PTCI and Pine Belt oppose the imposition of additional buildout/reporting requirements on DEs. The FCC’s rules should prevent DE program abuse before the licenses are granted, not impose additional regulatory burdens on bona fide DEs.

Mobility Fund Phase II

PTCI and Pine Belt expressed their strong support for a second phase of the Mobility Fund, and noted their concern over a recent statement questioning whether the Commission intends to implement a Mobility Fund Phase II.⁵ In rural, high-cost areas like those served by PTCI and Pine Belt – in their case, areas in Oklahoma and Alabama, respectively – there remains a need for ongoing support to sustain existing mobile wireless services. Furthermore, ongoing support is needed to help expand essential wireless coverage in rural and remote areas, upgrade existing rural wireless networks to 4G speeds, and keep rural service providers on the path to 5G and next generations of mobile broadband services.

To highlight the importance of providing ongoing support to sustain existing rural wireless networks, PTCI explained how businesses in its rural service area rely heavily on PTCI’s wireless network. PTCI provides service in the Oklahoma Panhandle – a major region for oil and natural gas production, agriculture, and livestock production.⁶ In one example, PTCI explained how hog production companies rely on PTCI’s wireless service for communications between transport vehicles, employees, and storage sites, all of which are located outside of dense population centers. The hog production industry also utilizes wireless M2M technology to remotely monitor the temperature, food, and water levels of its livestock housing facilities. Within PTCI’s service area, the only other network is Verizon’s CDMA LTE network. Because of the universal service support that PTCI receives, PTCI has been able to deploy nearly three times as many cell sites, which enables it to provide much more robust service to those that live, work, and travel through the area.⁷ Without ongoing universal service support, mobile wireless

⁷ The PTCI December 2014 Ex Parte contains a number of maps showing that PTCI’s universal service supported wireless network has a much more extensive coverage area in comparison to the coverage provided by Verizon’s network. In rural areas where there is no business case for
providers that serve high-cost, low population density areas may have to reduce coverage levels or shut down parts of their networks altogether leaving rural customers to languish with feeble coverage, if any at all.

PTCI and Pine Belt cautioned against eliminating universal service support in areas where just one of AT&T or Verizon provides 4G LTE service because such networks continue to be subject to CDMA / GSM incompatibilities. The rollout of VoLTE continues to be slow-going and will not be truly universal until all handsets are fully VoLTE compatible across all networks, so there is a need to ensure the continued availability of both CDMA and GSM networks well into the foreseeable future so Americans have universal access to voice service.\textsuperscript{8} Universal access to voice service remains essential, particularly for emergency 911 calls.

Lastly, with respect to using universal service support to increase wireless coverage in rural areas, Pine Belt noted how it is utilizing Mobility Fund Phase I support to bring mobile wireless service to parts of Alabama that previously had been unserved. Both PTCI and Pine Belt expressed the belief that continued universal service support for mobile wireless services through ongoing Mobility Fund support will produce more success stories like the one described by Pine Belt.

Pursuant to Section 1.1206 of the FCC’s rules, this \textit{ex parte} presentation is being filed electronically with the Commission using the electronic comment filing system.

Respectfully submitted,

\textit{/s/} Anthony K. Veach

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

\textit{Counsel for PTCI and Pine Belt}

cc (via Email): Priscilla Delgado Argeris
Senior Legal Advisor to Commissioner Rosenworcel

\textsuperscript{8} See PTCI December 2014 Ex Parte at 2-3.