

## **Ron Duncan**

Interviewed by Hilary Hilscher

**December 18, 2000**

### **Tape 1, Side A**

Hilary: I'm talking with Ron Duncan, Anchorage, Alaska, and it is December 19, (2000) and we're in Ron's office at GCI. Thank you. Why take a flyer (on telephone competition)?

Ron: Well, we like to say we did it because we didn't know any better. We didn't know at the time it was impossible so we gave it a try -- but it was really largely by accident. I came up here in '76, I guess, to work on putting together cable systems in Fairbanks and that deal was just about completed in the summer of '79. And we had sold our interest in that system to the McCaw Brothers back before they discovered cellular telephones, and we were two-bit cable entrepreneurs, and the attorney who represented me on the cable deal in Fairbanks was Dick Edwards. And Dick also, of course, had worked with Bob Walp in the (state of Alaska) Office of Telecommunications and Bob had had this hair-brain scheme for a while that what Alascom really needed was a little bit of competition. But he never really had the motivation to do anything about it, and Alascom assisted with that in the summer of '79 by wiping out the funding for the Office of Telecommunications and leaving Bob unemployed. And I had a little bit of loose change in my pocket and free time on my hands 'cause I just sold the cable system in Fairbanks. And Dick introduced me to Bob and the concept was that the three of us would form this company and I think it was Dick Edwards who came up with the name General Communication because he thought we needed something very conservative and very bland to reassure the business community. And the three of us formed a company and started to put together the process of getting regulatory authority... I think really not knowing at the time anything at all about what we were getting into. We had a very simplified vision and certainly didn't expect the road to be as long or as difficult as it was -- and certainly not as successful as it turned out to be in the long run either. The initial vision was much shorter and much simpler and much smaller.

Hilary: What was it Dick Dowling told me, that it was a vision of a \$50 million company?

Ron: Oh, I think that was probably... we probably would have thought that was wildly successful. I think the first set of performance (standards) probably had something like 20 million in revenues at the end of five years. It was a pretty small operation.

Hilary: So you formed the company and what sense at that point did you have? What did you want to provide? I mean, competition was big word but a pretty unknown concept.

Ron: The one concept that had been consistent throughout the vision of the company has been the idea of leveraging off of new technology. And there were really a couple of things that were coming together at that point in 1979. That point really represented probably

the turning point for the rest of the world with respect to competitive policy. It was in late 1978 that the FCC had finally given up trying to thwart competition and national policy was turning the corner from being staunchly anti-competitive to what -- over a three-to-four year period -- would become staunchly pro-competitive. The old FCC that had been trying to protect the Bell System and keep nasty MCI and others out had kind of gone by the wayside. We had a couple of very important first court decisions in the access cases...

Hilary: Pre-Judge Greene, though.

Ron: Yeah, court... FCC decisions appeal to the DC Circuit (Court) by MCI with regard to MCI's right of access, the (inaudible) decisions and those sorts of things that assured MCI access to the switch networks so their executive product and those things could work. The FCC basically, somewhere in that period, gave up trying to stop competition and became an ardent promoter of competition, and it was shortly thereafter that the breakup was announced as well. That was also, I think, late '79... the announcement. So there's a trend in the outside world where competition is firmly becoming embedded as national policy. There is also just the very... we didn't realize it at the time, but the very leading edge of the new technology trends. And in large part, the concept that GCI was leveraged off (of was) the idea that you could provide a better quality of service at a lower price using the new digital technologies. At the time we entered the market, Alascom was still running huge earth stations with tube amplifiers and analog service and -- even in an environment where they didn't have an incentive to spend a lot of money -- it would have been very expensive to provide service the way they were providing service. And we saw new technology basically coming out the front end of the pipe that was much smaller and much cheaper and much better quality and...

Hilary: Did you look directly at that technology as one of the directions you wanted to go?

Ron: I think if the technology hadn't been there, the company probably wouldn't have gotten off the ground because it was the lower cost and the better quality of the new technology that made us feel that we could get a competitive advantage initially in the marketplace. And I think we probably sensed that technology was going to continue evolving. I don't think we really had a good understanding of how quickly it was going to evolve. I don't think we realized when we put in the first set of technology that within 18 months we'd have thrown all that out and replaced it...

Hilary: It would be obsolete.

Ron: ...completely with stuff that was half the size and half the cost. But clearly one of the fundamental visions was you could do it better for less. And that combined with perhaps a misunderstanding of national policies -- certainly that the perspective that national policy was ardently pro-competitive -- but a failure to fully appreciate how much time and effort could be spent before that national policy was successfully extended to the Alaska marketplace, and certainly a lack of appreciation for how resistant Alaska public policy was going to be to the transition of the competition... I guess what we looked at

was, “ Geez, here’s a new technology, here’s a national policy that says competition is the way we’re going.” We mistakenly assumed Alaska was one of the 50 states and that US policy would apply up here -- and off we went. And I think once we got into... one of the things we discovered was that Alaska’s policy makers had to go through that same education process that the federal policy makers went through, and that in fact federal policy makers were a little bit confused as to just how sincere their commitment to competition was -- but they weren’t sure they wanted to extend it to Alaska. But we had to go through probably almost the same ten years. I mean, if you look at the time MCI started until the time they got really the federal regulatory mechanism firmly behind the competitive paradigm, it was ten or 15 years. And I think if you take ’82 as our start date -- well, ’79 was really when we started the company -- if you take that as a start date it was almost the end of the 80’s before... in fact, it was probably ’89 that we got intrastate authority. And I think that really represented the turning point in the regulatory perspective in Alaska, although we had been... after that there was still a lot of public policy resistance. We had to cram competition down the unwilling throats of almost the entire public policy spectrum in Alaska for more than ten years. I think the only real exceptions to that would have been the congressional delegation and that was vital to our success on the federal level, but amazing resistance -- and much more resistance than we ever would have anticipated -- from the state public policy apparatus.

Hilary: And yet the public you didn’t have that same resistance?

Ron: The public never resists competition. The public always thinks competition is a good idea even when they don’t buy something from the competitor. You can look at the airline business and see how much the public thinks it is a wonderful idea every time there’s competition for Alaska Airlines. They don’t really use the competitor, it goes bankrupt, but the public likes choice and they like having people making offers to them. They don’t like monopoly. They don’t like the idea of having to get it at a single place no matter how good the service is. And typically, monopoly service is not real good. It becomes the old Bell System model “We don’t care. We don’t have to.” And that attitude becomes pervasive. We had an advantage in that that attitude was heavily pervasive in the Alascom that we originally competed with, and it took them an awful long time to -- probably well into the 90’s -- to learn how to be a player in a competitive marketplace rather than a recalcitrant monopolist trying to put the world back the way it was, and using the competition of political group force and heavy handedness in the marketplace.

But ultimately that played to our advantage. I mean, they did some things that they thought were particularly cute. I remember our first major customer was one of the banks here in town that took a large risk on putting the traffic on GCI. And the day we cut the traffic for them, Alascom turned off their in-state service and told them that if they weren’t going to buy interstate service from Alascom, then Alascom wasn’t going to sell them intrastate service. And the expectation, of course, was that this would leave the bank to go racing back into Alascom’s arms and be a major blow for GCI. And instead what happened was the bank got so angry they couldn’t see straight, and went off after Alascom on its air. And ultimately we got regulatory action to change that around.

Instead of getting a customer back, Alascom created an enemy and it took ten or 15 years to forget how pissed off they (the bank people) were and, you know, probably the smart business move would have been to go back and say, “ Ah to hell with it: I’m not going to use the competitor.” But people got angry at the idea that somebody was going to tell them they couldn’t have a choice, and it didn’t become a GCI-Alascom issue at that point. It became an issue between the bank and Alascom, and it was sort of “over my dead body you’re going to tell me I can’t do something.”

Hilary: And on a silver platter for you?

Ron: Right. And that was very much the history of the first ten years. Everything they could think of to stop us they did without thought as to how that really played in the marketplace. And I think that we built up a lot more loyalty and a lot more commitment from the consumers than from anybody else and, of course, phones then became a big thing in Alaska. I mean, phone wars up here are all out of proportion to the visibility or the public policy perspective of telephone deregulation and competition in the rest of the country. You don’t find other places in the country where the phone companies have a 99 per cent name recognition in the public and are on the front page of the newspaper once a week. And it was a whole different thing up here because the public reacted very positively, yet the policy makers remained very negatively entrenched for more than a decade.

Hilary: What made you decide to take the specific steps to file antitrust against Alascom at that point? I mean, you had been talking about it.

Ron: I think it was just a culmination of things. I mean, you got to start with our perspective -- which it was that, I guess probably for Bob, this started as a religious crusade, and for me it started as another business venture but it quickly became a religious crusade. My background and training is as an economist and I’ve got a very, very firm religious belief in the ability of competitive markets to efficiently deliver service and to ultimately provide the best possible deal for the consumer. And I doubt you could ever persuade me of a circumstance where regulated monopoly really is a much better alternative than some form of competition. Although there are times when regulating competition may be the better alternative. But (I have) a very, very firm philosophical grounding in the workings of the marketplace, really probably going back to a seminal course in college on comparative systems that was taught by a guy who had been the finance minister of Hungary before he defected to the US. He was a Ph.D. economist but he served as finance minister of Hungary and the course was really a review of how the systems didn’t work in the directed economies. But (he showed) case after case of how the system screws up when you try to substitute direction, individual direction or autocratic direction for the dictates of the marketplace. And the lesson that came out of that course for me was that the only thing that made a directed economy work was the black market. He talked of his entire career -- he came up from a factory manager and then an industry manager and ultimately to finance minister -- and the things that made the factories work was that all the factory managers had pools of slush money that they used to bribe other

people to get the goods they needed to produce the output that the plant that they were supposed to produce.

Hilary: Which was free market.

Ron: Right, exactly. And the activities they went through! He described one absurd thing when he was running a shoe factory and they had been given production quotas and it was tough to meet the production quota so they did some classic linear programming analysis and concluded that the optimum shoe was the size seven shoe because that made the maximum use of all their materials that they had. So they produced nothing but size seven shoes. They beat their quotas, they got rewarded.

Hilary: Which is why you aren't wearing yours.

Ron: Right. But the lesson that came out of that...

Hilary: Wait, let me get (the tape.)

## **End of Tape 1 Side A**

## **Tape 1, Side B**

Ron: The lesson that came out of that for me and that fit in with the rest of my upbringing was just that competition works and it almost always works better than any other alternative. And that really is on a level, I think, of a religious belief for me. And when we started to get into the marketplace, what we were doing made a lot of sense. And I've got a very solid understanding of the fundamental economics and the public policy principles, and we got into the battle with Alascom and I (must have) lived in Washington for the first two years and...

Hilary: That's what Bob said...

Ron: ...did most of the legal research myself and I really was into the cases, and I knew what the law was, I knew what the right outcome was, and it became increasingly frustrating when every step of the way Alascom's sole motivation was to thwart the...

Hilary: What years are we talking about?

Ron: '79 to '82, the three years before we got the authority. And it also became clear early on that Alascom had made a conscious decision to do everything possible to stop GCI from getting a toehold, and in retrospect a very rational decision...

Hilary: On their part.

Ron: On their part.

Hilary: Uh, huh.

Ron: And I don't think we recognized how rational it was, until, probably sometime in the mid '80s, maybe even after the anti-trust suit had been filed, when we really began to understand the workings of the AT&T subsidy mechanism. We understood a little bit at the margin when we started about how Alascom got support from AT&T. But that process evolved, too, cause in 1979 when we first started, they were still on a share-of-the-revenues basis, they didn't have full cost support from AT&T and they were constantly arguing over rates, and those things, and then in the early 80's, I think it was probably around 1980, Alascom went to, essentially the commitment to move to fully integrated (rates), which meant that AT&T picked up the revenue requirement irrespective of what Alascom's rates were. And it didn't take Alascom long to figure out that they had a checkbook, or a blank check on AT&T's checking account, and that they had a subsidy worth \$100 million bucks a year, and \$100 million bucks a year is you know, \$300,000 a day, so every day you can fend off the competitor, you made another \$300,000 bucks. While you can spend a lot of money on lawyers, it's kind of hard to spend more than \$300,000 a day on lawyers, and AT&T's paying for them, anyway.

So they made a conscious decision that they were going to do everything they could to frustrate it, and it started with the regulatory process. It started with just layer after layer after layer of appeal and opposition in DC before we got our initial authority. Appeals that basically were totally baseless in terms of absolutely having no merits but tying the process up. We spent, you know when we formed the company I think we planned on spending a couple hundred thousand bucks and getting a certificate. We were \$3 million into the game in legal fees before we spent a penny actually constructing facilities. We constructed facilities in the face of a number of emergency motions by Alascom to shut us down, and then as soon as we were in the market, we began to see just more of the same behavior. We saw the incident with the bank, (Alascom) threatening not to provide services that only they could provide if the bank bought services from a competitor. There were all sorts of threats to our early customers about what would happen if they bought service from us. There was interference with our ability to interconnect to the network to distribute calls elsewhere, and basically every time you turned around they were doing something else that was sort of creatively designed to put GCI out of business.

And they understood very correctly, I think, that it really was a battle of systems. Whether it was GCI or anyone else, if competition succeeded in the Alaska marketplace, then their whole paradigm of delivering service was doomed to fail. Because the only defense for what ultimately became the \$100 million a year subsidy was, Well it's the only way to serve Alaska. When we started, the argument was, Well, GCI only wants to serve Anchorage. The only market in the state that's ever going to be profitable is Anchorage, and we just eke out a bare little profit there and lose all this money in the Bush, and GCI never wants to serve those places, so don't let them serve Anchorage.

And then when we went into Fairbanks, it was, Well, the only two profitable markets are Anchorage and Fairbanks, and here's the evidence that the rest of the state's not profitable. Then the evidence just gradually kept shifting. Every time we would go into a new market, well, that was now the profitable market. The unprofitable market was always one step away. But what they understood was that, sooner or later, people would figure out that you weren't subsidizing consumers, that you were subsidizing a competitor in a way that wasn't necessary.

So, all that added up. I mean, at some point, we began to realize that, and I guess it was probably, I don't remember when it was that we filed the case, it was probably '83, or was it '84...

Hilary: I think it was '83, but I've got the date.

Ron: It was a culmination of... the other thing, as soon as we came into the market, rates that for years Alascom had been trying to drive up, immediately they started slashing the rates, and thus enlarging the subsidy that AT&T was paying all their costs, and we really concluded that the only way we were going to get any adequate relief was through the courts, because the FCC was taking much too long to deal with these issues. And there were people at the FC who understood what was going on, and over time, more and more of them began to understand that the whole incentive structure was wrong for Alaska. That Alascom had a structure where it made more money by spending more money, and by deliberately driving up the cost of service. But it took an awfully long time to get the folks at the FCC interested in doing anything about it, and we felt that it would be faster relief to go through the courts. And we needed some way of doing something to stop the kind of consistent action that was designed just to drive us down.

Hilary: You couldn't wait for the FCC, at that point.

Ron: The FCC was taking forever to deal with things, and it has always been hard to get the FCC's attention for things that don't affect the Bell operating companies and GTE. They're concerned about the 80% of the market that's served by nine companies, the BOCs and GTE spread over 80% of the access lines in the country, and that's where national policy is made and implemented, and it is very, very difficult generally coming only with intense (inaud) administered by Congress, to get the FCC to pay any attention to what happens outside of those markets. And that's probably rational from their perspective. If you really want to drive national policy, you focus on 80% of the telephones in the country.

Hilary: Sure.

Ron: But getting them to pay attention to this issue... was really almost impossible in any kind of a timely manner. So the court suit in many respects forced the FCC to deal with it, because as soon as we filed the case, the FCC intervened, and made their own claims of primary jurisdiction and the court was initially very receptive to those claims, but did at

least set some timelines on them. And what happened over time, was we educated a federal judge as to the difficulties of the process, both with respect to the FCC's timelines and with respect to the activities of Alascom. But, you know, the court case itself dragged on for the better part of four years before it ultimately got to trial, and then it settled very quickly once...

Hilary: You had the shuttle diplomacy.

Ron: Well, yeah, it took, I mean, the judge mandated settlement discussions before the start of the trial. They went nowhere. And then we had the jury selection and the first two days of the trial, and then the judge decided, based on the opening presentations from both parties to try again. And we went into what was probably a week of negotiations, shuttle diplomacy, in-chambers, and in that period it took Alascom probably a day and a half to convince the judge that they really were trying to put us out of business. At that point, the tide really changed to where he'd go beat the living (inaud) out of them and come back and report to us, and we'd argue whether that was enough of a settlement, but... It started real quickly, because we were willing to settle for things that didn't cost money, but kept us in the marketplace. One of the early-on things that we'd done through the FCC was, we'd forced AT&T to give us essentially cost-free access to the Lower 48 network for the distribution of our switched voice traffic. And that had a real high value to us, because the cost of that distribution was very significant at the time. In fact, it exceeded the rates that Alascom was charging in the marketplace, which was one of the reasons that we ultimately succeeded in getting the FCC to order that. And AT&T of course had been sucked back into the case. When we initially filed the case, it was against both AT&T and Alascom. We then settled AT&T out by them agreeing to give us that distribution, and then Alascom counter-claimed (in order to) bring them back into the case. AT&T was having a great old time, because they were paying everybody except our legal fees. They were paying their legal fees to defend against Alascom, they were paying Alascom's legal fees through the separations process to sue 'em, and they wanted out. And early in the settlement discussions, they made it clear to the judge that they would be willing to pursue a settlement along the lines of the original (inaud) distribution.

Hilary: Um hmm.

Ron: And we indicated that we would be willing to accept a similarly based settlement. And Alascom basically took an, "Over my dead body" approach, even though that settlement cost Alascom nothing. And the judge was a very, very smart guy, and it didn't take him very long to find out that the defendant really was guilty of anti-trust, because the defendant was solely focused on putting us out of the marketplace. And in fact, Alascom was willing to pay large amounts of cash payment for structures that would result in GCI going away. But they weren't willing to accede to any kind of settlement structure or consent decree that restructured the marketplace in a way that kept us in the market. So it didn't take long for the judge to understand what was really going on, and then he just



sort of crammed it down the throat of Alascom, and I don't know what happened in those...

Hilary: In those (inaud)

Ron: In those sessions, although I suspect that what happened was that Alascom's lawyer, who was a respected old-line member of the Seattle bar, was getting beat up pretty bad by the judge, and having a pretty hard time with his client. And I imagine that the judge was telling, making it real clear to him that if he went back to the courtroom, he was going to roast his client, and that he'd better get his client into line, and I suspect he had a hellaciously difficult time getting his client into line because the client just didn't want a market structure that left GCI in the marketplace.

Hilary: Why didn't AT&T push for settlement harder, on Alascom? I mean, they were paying for all of this.

Ron: AT&T was just never really able to come to grips with the whole Alaska situation. When we first started this, I guess when we first filed the anti-trust case, and went back to settle out with them, that was when they first really figured out that they were kind of paying the check anyway, and that that was a bad deal for them. And that was probably '84. And they bought Alascom in '94 or '96?

Hilary: '96.

Ron: '96. So it took them 12 years at \$100 million a year to figure out how to get out of it. Part of it was hubris on AT&T's part that they always felt that political relief was just around the corner. All they had to do was use their substantial political muscle at the FCC and they were always going to get this fixed in the next pleading cycle. If you go back and look at the history, there was 12 years of pleading between '84 and '96 with increasingly more strident efforts by AT&T to end the joint services agreement, and somewhere in there, they sort of shifted sides from being on Alascom's side originally defending it, to being on our side, arguing it ought to be ended, although their process got slowed up pretty significantly by the whole anti-trust claim, and Alascom's counter-claim.

The best way to paralyze AT&T at that time was to file an anti-trust against them, and the whole organization ground to a halt. Then every decision that had to be made by (Zieglis?) and everything just ground to an utter halt. They also had a problem that the Alaska problem was assigned to a bunch of mid-level functionaries who really had no decisional authority, and it never... well, it was \$100 million a year, it never rose to the level of being the top two or three national policy problems to solve, or they could have solved it. So it just drug on and on and on...

Hilary: ...paid the bill...

Ron: ... the people who were involved were pissed off that they were spending \$100 million a year and that Alascom really had sort of the world's ultimate golden goose, but it couldn't get to the level of policy attention required to solve it.

Hilary: What kept you going during that time? There must have been some pretty bleak moments.

Ron: There were times when the odds were long. I think the best description of it is that once you're in the swamp, the other shore had to be nearer than turning around and going back the way you came. We clearly had a belief that what we were doing was the right thing. That it was not only good for GCI but that it was also good for Alaska and good for consumers, that it was changing the face of how telecommunications was delivered in Alaska. You know, at some point you've just got your head down, and you're angry, and you're battling, and you're not going to let the other guys get you. When we look back on it, the only reason we started it was because we didn't know at the time that it was impossible. And if you knew going in, all the problems that you were going to have, you never could have financed it; you never could have put the deal together and done it because the odds were too long. But once you were there, and once you had the money deployed, people had no choice but to go forward. I mean, coming into the antitrust suit in the...

## **End Tape 1, Side B**

## **Tape 2, Side A**

Ron: We characterized it as Star Wars and we saw Alascom as the evil empire and Chuck (Robinson) made a pretty good candidate for emperor.

Hilary: A title he accepted.

Ron: Yeah, yeah. And but, you know... I mean, you really didn't much of a choice. I guess we settled. We have to check the dates. It seems to me we settled in '86, is that... So it would have been the summer of '85: we were running half a million dollars a month in legal expenses. Less than six months earlier, we had completed a spin-out from WTCI (Western Tele-Communications, Inc.) and \$40 million in financing and we were faced with the prospect that we couldn't pay both the interest on the debt and the lawyers. And the relatively simple calculus was that the lawyers were still rendering services and the bank had already given you the money so you didn't need it for anything else. So we had this meeting with the Bank of America in San Francisco where we explained to them that we were going to suspend interest payments. And talk about personal -- they took that very personal. They accused us of being everything from bank robbers to a lot worse names.

But it was a pretty simple choice. I mean, you had the \$40 million bucks at that point and everybody was in it and the reality was that as much as they objected to it there was nothing they could do because the only way they were ever going to get their money back

was if we prevailed in the antitrust suit. And we ultimately created a business. We weren't going to get there without successfully litigating the antitrust suit, and the lawyers weren't going to litigate without being paid, so the bank didn't have any choice. But the bank didn't see it quite that calmly or rationally, but ultimately when push came to shove, they never moved against us. We had a Chapter 11 filed and ready to go to stave them off if we had to, but they understood that their hands were tied and they never ultimately made that move, although they made our life extremely miserable for the nine months between then and the time we settled. Of course, the day we settled, they were our best friends -- and had been supporters of the antitrust suit all along because they got paid off with the proceeds of the antitrust suit but...

Hilary: But that took a lot of chutzpah to go in there and say...

Ron: But you didn't have any choice. I mean, it was relatively simple calculus that we had their money. They were in a tough spot. We were all in a tough spot and there was nothing they could do about it. You couldn't do both and that was a pretty clear-cut decision. And we understood the bankruptcy code well enough to understand that their options were relatively limited and we didn't understand how intensely personally they would take it, and how bitter they could make the whole thing. And certainly they didn't assist the process because, in addition to litigating an antitrust suit, we were also spending a lot of time fighting with our bankers and trying to resolve those situations. But you know, once you're in the middle of the swamp you don't have a lot of time to sit around contemplating why you're there. You got keep the alligators from biting your ass off and we spent the better part of ten years fighting the alligators.

Hilary: And you did get the settlement, including the southeast cable. Talk a little bit about that.

Ron: Well, at the time, I guess... at the time the antitrust suit was going to trial, Alascom had just announced that they were building the North Pacific cable and that was a potential threat to the business as well, because if you could be on fiber rather than on satellite you were going to capture a significant piece of the market. They were able to do it, of course, by leveraging off of the continued AT&T subsidy. It is just another way to spend AT&T's money, although in retrospect cable was probably the right thing to do for the marketplace as well.

Hilary: Technically?

Ron: Well, I mean in terms of the service quality level. At the time, we thought it was money that wasn't going to be recovered and I... then we were mis-estimating. I don't know if Alascom had it right. I think they may have done it more because it was a good economic deal, but clearly the way demand grew created a situation where, you know, less than ten years after it was installed it was completely full and you needed more capacity. So it was the right thing to do. But clearly we had to have access to the cable in order to be able to continue to do our business. And it was another place where Alascom helped teach the judge a lesson because it was real clear from the materials in the antitrust suit that they

weren't going to be able to use more than a (inaudible) tiny fraction of the capacity of the cable but they violently resisted putting in the antitrust settlement agreement anything that would sell us a piece of the cable at cost. And it was ultimately... was there because the judge understood the only reason not to have it (cable access by other companies) there was if you were really trying to drive GCI out of the market. And the whole name of the game of why we filed the lawsuit was because it is illegal to engage in those sort of monopolistic activities. And so it very readily became part of the settlement because there was no... if you accepted the premise of the antitrust law, which is that deliberate monopolization is illegal, then there was no reason not to have it as part of a settlement. And I think part of the issue here is Alascom never accepted the premise of those laws. And Alascom is a lot like Bill Gates -- that they never understood. I don't think it just disagreement. I mean, they really believe... they probably believed as religiously in monopoly as we believed in competition. And for an awful long while, they understood how their golden goose worked. They also believed that you couldn't serve the Bush without that kind of monopoly.

Hilary: But it was a sincere belief?

Ron: It was a sincere belief and it was a belief that their own view of the world was correct, because you couldn't serve the state that way without the subsidy -- because the existence of the subsidy had driven costs up to a level that couldn't be sustained without the subsidy. And it was part of the problem that the Public Utilities Commission had at the time as well: they couldn't see through the paradigm shift. They couldn't see the world other than the way it was at the time. But what they were looking at the time was a world that had been created by the presence of subsidies. And this was both for Alascom and for the local telephone companies.

But we created an environment where we encouraged people to go spend money. We say, the more you can spend the more you can make. And it's a little bit like Anchorage in the 80s with the oil money in the pack. You have tons and tons of money so you go out and spend the tons and tons of money and then you discover a little belatedly that large capital assets have large operating costs. And there is really not a whole lot you can do to lower the operating and maintenance costs. So the fact that the subsidy existed to let us spend huge amounts of capital in serving the state created an environment (whereby) the only way you could operate those expensive assets was with very high operation and maintenance costs and the only way you could pay for those was with the subsidy. And if you used the static analysis, if you used Alascom's costs or Alascom and (AT&T's) costs and you looked at the world as it existed just at that moment, you had to have a subsidy.

But the only way you come to a different conclusion was if you concluded that the whole cost base wasn't necessary and that you really didn't have to have a million-dollar (earth) station to serve Kiana, that you could do it with a \$150,000 earth station with remote monitoring. And that changed the whole paradigm. But the regulators couldn't ever see through, at least that group of regulators at the time, couldn't see through what was being (shown) to them by the world as it existed then and we were looking through to a

different paradigm. We were looking through to the paradigm which said, "Geez, if that's how much money you have to deal with you can find a way of using the new technology to make this system work because you can do it for less and leverage... once again, leveraging off the technology. And we were always leveraging. Our problem was we were using the leverage off technology that was still 18 months in the future.

Hilary: Yes.

Ron: It was never moving fast enough because throughout this whole process the price levels were greater and Alascom was able to leverage off of the Lower 48 rate reductions, rate reductions that were happening there because costs were really being wrung out of the network. But Alascom was able to implement those rate reductions up here without having to take the costs out of the network because of the way the subsidy mechanism worked and that made it particularly difficult. You always needed the next generation of technology just to get down to that cost level. And in many respects the problem of rural Alaska today is that we have let the price levels go too low and that when we...

Hilary: What do you mean "price levels"? Of everything from your local exchange to...

Ron: Well, yeah, but telephone service is too cheap in the Bush today for the Bush's own good. And when we first proposed our 50-site demo project to take into rural Alaska, our business case said that, with about half the market share, we ultimately could have made very good money. And we still lose money on that process today even though we have twice the market share because the rates are about 15% of what they were when we started.

Hilary: Fifteen percent!

Ron: Yeah -- of what they were when we started that process. So the rates have come cratering down and the Bush is left with a situation where you still don't make money in the Bush. Now when the rates were 40 or 50 cents a minute for long-distance calling, yeah, that's a problem. When rates get down into the sub-20-cent level or the sub-10-cent level, the difference between 10 and 15 cents a minute is probably not as material to a Bush resident as the difference in the quality of service and whether or not they can get dial-up data, whether or not they get Internet, and those sorts of things. The fact that you can still buy a telephone line on the North Slope for \$8 a month -- and that's purely a result of subsidy. But what it does is it keeps anybody from coming in there and saying, "Well, if it was really thirty bucks a month like it is in the rest of the world, I could make enough money and I could get Internet and other services in here." So we have wrung the price levels down so low -- and initially the focus of the policy makers was rate integration and rate integration made a lot of sense when it cost you a buck-ten to call New York and \$4 a minute to call from Juneau to Anchorage. But the goal, which had a firm foundation in rationality when it first started, became like a religious goal that we pursued long after any rational basis and the goal had gone away. And we have allowed the marketplace to

get to the point where there isn't enough margin in the rural areas to get the new technologies in there today.

Hilary: How did that happen? How did that...

Ron: The mantra of rate integration. You've got to have the same rates you have everywhere else in the country and, if you're a rural policy maker, what you're really concerned about is that -- at least initially -- you're really concerned that your people pay the same rate as the folks in New York. And oh, by the way, you'd like the same service level. But the reality is that costs are higher in the rural areas, but not as much higher as they used to be because of the benefits of new technology. But I mean, where we're really are today is that the cost of actually delivering the service probably isn't all that different. But what you're dealing with is extremely thin markets. Just too few people. And we want the cost to get down to a level, well, that the prices get down to a level that we'd milked an awful lot of... the problem could have fixed itself in the mid-80s if the pricing -- if the low 20-cent pricing for long distance had been sustained.

Hilary: How do you get the eight dollars? I want my local phone bill to be eight dollars.

Ron: You get the eight dollars by manipulating the subsidy mechanism. And there was an absurd... I mean, go back to another one of our little battles when we wanted to... Susan Butcher, when we first started sponsoring her, didn't have a telephone. She lived in Manley. Manley didn't have phone service and we wanted to put an earth station in so Susan could have phone service, and (we'd) feature this as part of our support of Susan and all of that. And when we went in and tried to put that earth station in, United Utilities -- who has that service area (and) who had refused for five or six or seven years to provide service to Manley -- immediately objected (saying) that we couldn't put the earth station in because we didn't have the authority to provide phone service in that area.

And we got into a long pissing contest and ultimately we got the earth station in, but United Utilities also went back and built a wireless-based phone system to serve the eight or nine customers in Manley. They spent, oh, it was better than half-a-million dollars to pick up, I think, five customers. And what they figured out after they did that, what they started crowing about, was because that was so expensive per customer it drove them into the next higher level of subsidy support, and they were able to reduce their rates to all their other customers. That the average of \$100,000 investment for those five customers drove them into the next subsidy bucket and that meant they got a \$5 reduction system wide.

Hilary: Why not do that? It made perfect sense.

Ron: Why not milk the subsidy? But that was the kind of ill-logic the policy makers were hung up on: we got to have affordable phone service and I mean nobody has ever really stopped -- until recently -- to say what is "affordable" phone service? I think the RCA is now coming to grips with the fact that, well, maybe \$8 is not the highest level what could

be considered “”affordable in terms of phone service in Alaska when you pay thirty bucks in Fairbanks maybe the people in Barrow could afford to pay more than eight.

Hilary: The “new” RCA. Don’t you love the way theses initials (come around again)? ACS... (inaudible).

Ron: Yeah, it’s all right.

Hilary: Only Alaska would have a short enough memory to call the new APUC the RCA. What did the PCS license enable you to do?

Ron: Not nearly as much as we thought it would. PCS license was one of those things that didn’t work out the way we had planned. When we bought the PCS license, our expectation was that wireless would be the primary competitive basis for competing with wireline local exchange. And we were looking at a technology called “Pacs” which would have been a wireless -- a wireline equivalent technology using wireless. It would... it would have supported 64 kilobit data and a voice quality level that was fully comparable to what you got on the wireline so we were looking at an environment where our entry into the local phone business would have been through the wireless vehicle. We really had sort of two vehicles in mind as to how we were going to ultimately provide the final leg to the customer for local service and one was wireless and one was through the cable plan.

At the time we bought the wireless license, we assumed that the wireless technology was going to outpace the cable telephony technology by five to seven years. And that was going to be our first vehicle. What happened was that everybody else who bought wireless licenses became a cellular look-alike. Everybody wanted to compete in the mobile... in the mobility game, and in the mobility game atrocious service is okay as long as the prices are dirt-cheap. If it is 10-cents a minute, you’ll put up with the fact that you can only get the call through every fourth or fifth attempt.

Hilary: But you get half the call...

Ron: When you get through, you can hardly understand the other party and then it came became a nationwide game of how quickly can we hook up as many customers as possible. So nobody picked up the “Pacs” technology and built it out, which meant it never came down the cost curve and never became cost effective for us, so our wireless license just kind of languished. We built out a fixed wireless system in that band the last year, because we had to irradiate the spectrum in order to preserve the license. At the time we did that, we did it mostly to preserve the license although – pleasantly, to our surprise -- it has turned out that it is a cost effective way of delivering higher speed connectivity in situations where either ACS can’t get the copper wires quickly enough or where the copper wires are too long (and) you can’t do the high speed. And we’re actually looking at using the fixed wireless technology in some other areas as well because it has turned out to be more cost-effective than we thought. Some day there will

be a wireline equivalent wireless technology and that will make a tremendous amount of sense for serving the rural areas because it is much easier to maintain wireless than wire in the smallest rural areas.

Hilary: As Billy Mitchell's group found out when they were trying to get the signal into Nome. Absolutely.

Ron: But what you got to do is, you got to... I mean, one of the problems with life in Alaska is you can't define your technology solution and implement it. You got to write somebody else's technology solution or you never get far enough down the cost curve, I mean.

Hilary: Explain that a little more.

Ron: Well, there are a lot of things that could be done that, if you were building your own technology and if you could sell 10 million units of it, you could significantly drive the cost down for serving rural Alaska. But Alaska can't be a technology leader in the sense of creating whole new technologies to meet its service needs because the market just isn't big enough. The best we can do -- and what GCI has tried to do -- is to take existing technology that has been developed for mass markets elsewhere and modify it around the fringes so it better meets the needs of the Alaska market. Our Bush earth station product was done very much that way. We took a small earth station product that was designed for a different purpose and by paying a couple million dollars to the vendor to develop some customized software, we managed to repackage it in a way that lowered the cost of rural service by an order of magnitude.

Hilary: This is when you went into the 50 villages?

Ron: Right. And we have been able to do those sorts of things, but we haven't been able to go... I mean, the Pacs standard exists. We know exactly the wireless technology that we need. We just need somebody to order 10 million units of it so that the cost per unit gets down far enough that we can afford to deploy. You can't go out and sell something if you got to pay fifteen hundred bucks a handset, but if somebody ordered 10 million units you can give them a hundred bucks a handset. The whole paradigm changes. But Alaska... from that perspective, Alaska can't lead in terms of actually developing what would be the optimal technology for Alaska. All it can do is modify stuff to the extent of the size of the market. Ultimately what limits you in Alaska isn't the distance, it isn't the climate, it isn't anything other than the fact that it is a very small market. And what you can recover out of that market is limited.

Hilary: And yet, after all this time you're still here.

Ron: We're still here. We sometimes think that if we had chosen a different market for the same amount of effort we could have made a hell of a lot more money but once we were here, we are stuck here. And it has turned out to be a good market. I mean I wouldn't... as I said, when we did that original business plan, we thought that after five years (when)



we had \$20 million in revenue and \$5 million cash flow -- and we were fat, dumb, and happy. You know, with a little bit of luck we would probably break \$100 million in cash flow next year. You know, that's a long way from where we thought we would be, so...

Hilary: That's a really long way from having a neutral sort of name so you could be accepted by the business community. One of the original consumer benefits -- or the whole premise for consumer benefits that GCI kicked off (with competition) with the lower prices, the better service and technology and choice. Are those still your guiding principles today?

Ron: I think clearly one of the guiding... the guidepost that has remained constant throughout the life (of the company) is "better service through new technology". And that is still very much what is driving the company today. If you look at the forefront of where the most exciting part of what's happening in the company today is, it's on the Internet side -- where we've gone from 0 to 60% market share in 18 months but we've got the highest cable modem penetration rate in the country, and we are selling the socks off of Internet, and that's all new technology-based. It's all continuing to take the benefits of the new technology and drive them into the Alaska market.

And Alaska is a market that is highly receptive to both telecommunications and technology because it is remote. People up here are from somewhere else, the distances are large, the value of telecommunications in the Alaska market is much, much greater than it is to people living elsewhere. And my favorite example this comes out of my home life. My wife is a doc over at the Native Medical Center. And when she first started doing that gig 10 years ago, she'd be on call at night or on the weekends. Essentially she's a statewide pediatrician at that point. And the phone rings at two o'clock in the morning, and it is some health aide somewhere off in the Bush with a medical problem. And 10 years ago, what you had... you had a scratchy two-way telephone circuit that was a lot like a radio circuit. And "Over" is what you needed to say when you were done talking. And you got to try and figure out: okay, have I really got an emergency out in the middle of nowhere and do I need to dispatch a Lear jet at a cost of \$30 to \$50,000 to bring this patient into town or can they wait for tomorrow morning's flight? And the primitive level of technology that was in place meant that whenever you were in doubt -- and most of the time you were in doubt -- you had to dispatch the Medevac at enormous cost.

I remember, you know, the height of absurdity was one night when she was trying to tell some health aide somewhere out in one of the villages how to read an X-ray over the phone. And there was the, "Okay, well, you see -- you are sure that's the stomach? Okay. Well, if you're sure that's the stomach, go down a little bit to the left and what shade of dark gray? Is it dark, dark gray or light dark gray?" This goes on for five or ten minutes and finally the conclusion: Well, I can't tell if it is an appendicitis or not. I'll call Lifeguard and put him on a jet and we will have him here tonight." I come home the next day and I say, "Well, you know, how's your little appendicitis patient?" She goes, "Oh, fine, he was just constipated." So it was a \$50,000 Ex-Lax.

Now, in the middle of the night the phone rings. She gets up, she goes into the next room and she logs onto the computer. And through a GCI telemedical link into the village, she's got an e-mail message there with half a dozen high-quality digital pictures. The aide on the far end has an otoscope that is hooked up to the computer on the far end. You've got all this stuff flowing out of it and you get a much, much better... I mean, for years she was saying, "If I could only see the kid, I'd know whether I needed to bring him in." Well, now she can see the kid and if she doesn't like the views, (she says) "Turn him over, take pictures of the back and mail it to me."

And I mean, I watched the other night as she diagnosed some really strange rash that some kid had, and (she) concluded, no, it wasn't an allergic reaction. It could wait until the following morning. Whereas, five years ago that would have been a \$50,000 Medevac. And the point of the example is that this isn't Concord, New Hampshire, where it may be nice to have a telemedical link to Mass General, but ultimately you stick them in an ambulance and 50 minutes later you can be in Boston and physically see the patient. And yeah, maybe it cost you a thousand bucks to ride the hour down the road in the ambulance. (But here, in the Bush) it was literally \$50,000 to get the patient in to figure out whether you really needed to have the patient in.

And that's just a crystal clear example of how the technology has an enormously greater benefit in Alaska. But that's not the only place. I mean, for a merchant in the Bush or a consumer in the Bush, the telecommunication link is the vital link -- and it has enormously more value to that consumer because of the high cost of physical connectivity that it offsets. And that has defined Alaska as a very attractive market for telecom. It has got much more value to us up here because it is harder for us to use the physical alternatives, and because of that people have been very receptive to the new levels of technology.

And while I probably don't want to go down this route too far with the regulators, it is one of the reasons that I think we get a little too carried away when we focus exclusively on making our rate levels match the national rate levels. We ignore the fact that the benefit of telcom up here is so much higher than the benefit of telecom elsewhere in the country. And when the underpricing then leads to under-investment, we have the reverse problem-- and then we're back into this, well, how do we create a subsidy mechanism to solve the problem? And you know the latest problem; it is a problem is the delivery of Internet in the Bush. And the fact (is) that we have good Internet in the clinics and schools, but we don't have good Internet in the Bush homes because we don't have a cost-effective way to get through the local phone system because the density of users isn't big enough. But we're also real concerned about driving the price down to urban levels. GCI offers free Internet in Anchorage, (but) well, you know, shouldn't we have free Internet in Kiana as well? Well, it is probably more important to have Internet at \$40 in Kiana because it has a hell of a lot more value. And there would be a better chance of getting it delivered if you could get forty bucks a month for it in Kiana -- than it would be in a market of 250,000 people, where we're giving it away free as a packet with something else. That makes sense. And it's part of probably what Ted (Stevens) was

referring to this morning. He is a little frustrated that he can't get the telecom providers to agree on ways to get Internet to the Bush and (he) gets all tangled up with these conflicting economic objectives.

Hilary: But you're real different entities too, and it isn't that you want different things for the Bush. Obviously you all want the service.

Ron: We have very different views on how it should be done. If you're a local phone company, the thing you want most is you want to keep GCI out of your area because GCI represents competition and that represents change and some day you're going to have to change how you do business and your subsidy may go away. So, more important than getting Internet for your customers is making sure that your customer doesn't get Internet in a way that brought GCI into your community.

Hilary: Right, but they can they now legally keep you out?

Ron: They can't keep you out. But if you're talking about new subsidy programs and new stimulus programs... And one of the things Ted would like to do is spend federal dollars to drive Internet into the Bush. And then we all get in a huge argument over how should those dollars be structured and what should the delivery vehicle be and how should it work. I mean, our view of the world is that the subsidy mechanism that they have used for tele-health and for school access has been the most effective because, essentially, it pays a subsidy to the consumer. The school makes a selection based on the provider it wants based on competitive bids. And then it gets a portion of the purchase price subsidized. And it works the same way through tele-health and that has led to a lot of competition for those services. Prices have come down. Quality of service has gone up and they have got what they need. That's a better way to subsidize than saying, "Spend as much money as you can and we will pay you everything you spent plus a return on what you spent." And you get the (inaudible) like the other subsidy mechanism (inaudible) would like to see Internet extended out there through the (inaudible) on a vehicle that says, "Spend whatever you can spend and we'll make you a return on top of it." And that's still the tension and the incentive structure, although we have at least swung into 25... to a point where now the regulators understand what's wrong with that incentive structure and we are headed in different directions, but...

Hilary: And the person who comes along and does the (telecommunications history) book from 1996 to 2010 will have all of this issue, but it's so exciting to see how it is playing out even though my book will essentially stop at '96. All the pieces were starting to be in place at that point to have you exactly where we are now.

Ron: Have you talked to Susan Knowles?

Hilary: Oh, I already did. Susan was a great interview, yeah.

Ron: She (inaudible).

Hilary: Oh, she's just terrific. And Alex Hills was another good one. You know Alex comes from a technical and engineering background, so of course he had pages of notes for my interview. Now you didn't ask me about...

Ron: Alex is another one whose view of the world has changed a whole lot because Alex was not exactly ahead of the... a supporter in the early years. He was Commissioner or Deputy Commissioner of Telecom in the Department of Administration. He was very, very anti-competitive, very skeptical (inaudible). He has come a long way in his view of the competitive side of the world.

Hilary: He has become... yeah, yes. When you look back at that period when you were providing first local, first interstate and then local service and then expanded into cable --could you see at that point where you wanted to go with everything? You could see the future enough where you were hoping it would...

Ron: I think it became real clear in the early 90s that the distinctions that we placed on the services we sold -- long-distance, intrastate, interstate, local, data voice -- were really distinctions that had more basis in the historical structure of the industry than they had in either the technology for the delivery of service or the consumer view of the world. That ultimately it was all zeros and ones flowing through the same pipe and in the long run telcom companies wouldn't care a whole lot how the consumers reassembled those bits on the far end. And what we saw was a massive convergence coming in the industry where, at the time, I thought we were headed for a global industry of three to five companies with each one of those providing everything full-range: from voice telephony through to entertainment.

Now, I think, the entertainment is probably the last piece of that to really fall into the fully integrated bundle although that still is happening and will continue to happen because the Internet is driving that. The Internet is really the medium that has blurred telecommunication and entertainment because it is clearly a communication link that is increasingly used for entertainment value as well. And some day our cable system is going to face competition because you will be able to download movies through the Internet.

So that is what we saw coming and we made a conscious choice that we'd rather own the fat pipe rather than the skinny pipe to the customer's home. That's why we bought the cable systems. It hasn't evolved quite the way we expected in terms of the speed and perhaps not in terms of its ultimate outcome -- I think, largely because AT&T flubbed the execution on its global plan. And I still believe that John Malone's vision was the correct vision and, if you look at what we've done in Alaska, we've successfully implemented that vision. We have taken the long-distance, the local and the cable, and melded them together into a single enterprise where 70% of our customers take the package. It is one pipe delivering all the services. And we've countered the national trend in decreasing margins on the long-distance by packaging it with other things.

AT&T bought up all the assets to do the same thing on a national basis and then never really executed. You could never call AT&T cable and order AT&T long-distance service. You couldn't call AT&T wireless and sign up for the cable. They never tried to integrate. They let the financial markets spook them out of dealing with it because of continuing price pressures on long-distance -- and basically they committed suicide. They said, "Awk, we don't really want to try this anyway. We're going to throw away \$100 billion of shareholder value that we spent putting assets together and really changed the paradigm around." Four or five years ago I would have told you the BOCs were not going to be survivors, that they were going to get eaten up by somebody else in this colossus. And now it looks like the piece parts of AT&T may blow away. And some day you'll end up with a limited number of large global companies providing, in the end... and I think that has been pushed off another five or ten years now because we have to reshuffle the whole deck since AT&T blew it apart.

But the technology trend is still in the right direction. It is all zeros and ones. It's faster and faster. Every year the consumer buys a computer that goes faster and software that slows it down more. And you need more bandwidth to link them together. And how that bandwidth is used is increasingly determined not by the telecom provider, but at the consumer's home by how the computer assembles it. So the trend is the same. It is just a little bit slower than we thought it was going to be and it actually leaves Alaska out on the leading edge in terms of having done the integration games before some of the other places in the country.

Hilary: Describe your typical ideal... the typical ideal GCI consumer.

Ron: (The) ideal GCI consumer is somebody that has a high-speed computer, a cable modem. They use dial-up access when... actually probably several high-speed computers at home. They use dial-up access. They work for a company who has got a cable-modem land connection so that there is private network that can access your work (computer) through your cable modem at home. We get their local business and their long-distance business and they also have the entertainment package. There are people who are really at the leading edge of technology usage. And if you look at how we define our market segment, the reason we offer free Internet and launched into such a huge share in the Internet market -- because that's the segment of the market we want.

We want the space... the consumers who are a lot less concerned about... the consumers today who are not scared of the new technology. If all you want to do is talk all the time on the telephone, you ought to go buy "Infinite Minutes" and let ACS lose money on you, because that's not the customer that we want. We want the customer who is using the new technology, who has the need for the bandwidth because we got the bandwidth to fill. We have an undersea fiber cable that is going to take 10 years to fill up. We've got co-ax cable to your doorstep. We've got enormous ability to deliver bandwidth and our ideal consumer is somebody is a bandwidth hog, so...

Hilary: And whose kids are (too).

Ron: Yeah. Kids are great because they do it for the games or for the streaming video or those sorts of things. But, ultimately, everybody gets there and probably in the long run, the best consumer is the one who has a business purpose for it as well. If he uses it to increasingly work from home and the companies, then... who move to put in place the private networks that so that you can access your company from your house here in Anchorage and you can access it from Fairbanks as well. So you can have somebody who works in Fairbanks and increasingly...

Hilary: And when you're there on business.

Ron: Increasingly you're going to end up with... distributing employees because (the) can do things from places... location no longer matters for people for whom the work product is an intellectual output. And that has the potential to greatly enhance Alaska's economic climate if we could solve some of our other problems. I think Alaska may ultimately drop the ball and not be an attractive place for high-tech people to live and work because we don't seem to be able to come to grips with our social issues. As long as we leave it hanging out there that we don't know whether there's a future for state government, and we don't know what the funding source is, and we don't know whether there is a punitive income tax or a bankrupt state government and no public services, where we don't know whether we can provide a minimal level of acceptable government services for quality of life -- then you're not going to attract the kind of workers that you'd really like to attract, which are the people that can live anywhere and make tons of money by selling their intellectual services. We have the technology infrastructure to do it today. We probably have the environmental quality of life that would put us right up there at the top of the scale, but we seem totally unable to deal with our political issues in a way that would give us any stability. And if you want to attract somebody who makes a couple hundred thousand bucks a year by selling their intellectual output to somebody else in the world, you better be able to answer the questions of: Are schools good? Are public services good? Is there going to be a punitive income tax? Because those people won't come to states with punitive income taxes.

But the longer we dither and say, well, either we don't need state government because government doesn't ever provide any value, so we ought to cut the budget back so the government spends zero. Or we have to tax through the yinyang so we can keep paying out two thousand bucks a person on the Permanent Fund Dividend. As long as we don't resolve those issues, then we're drifting toward a state where either we're going to be all WalMart clerks or we're going to get one last great gasp out of a gasoline construction and we are going to get a little more revenue to keep feeding the current habit -- but the rest of the world is going to pass us by in terms of how the economy is changing. In the rest of the world, the fundamental basis of the economy has shifted to basically being the export of intellectual work product. And the reason the US leads the global economy today is not because of any physical technology, technological prowess. It is because of intellectual technological prowess. Because we have learned how to build companies that

can sell basically stuff that is 100% the result of brainpower. It doesn't matter where those people are located. And that's the future economy of the developed world.

If Alaska doesn't do something to grab onto that economy, then Alaska is going to become a third-world backwater and we can live for a little while off of gas projects and as long as we can keep on life support we can keep dropping a hundred million dollars a year of federal money into this state. And we can suck that trough for a while but we are going to miss the boat not because, fifteen years ago, the issue was: will Alaska have the technology footprint it needed to play in the emerging economy? And the answer is that Alaska has more technology today than most other rural states, but it is going to miss the boat because it can't resolve the public policy issues associated with that. And because 51% of Alaskans can't agree on anything. It's not a happy ending.

Hilary: And it's not an ending yet, but you're right. It's a turning point. When you look back on this 21 years, and think of all the ups and downs and the building and the excitement and the challenges -- what are the greatest satisfactions for you?

Ron: Oh, I think probably the greatest satisfaction is looking at the fact that we have really changed the face of Alaska. We have made a difference in peoples' lives up here in terms of how they're carried out, in terms of the way they go about transacting business and carrying out their daily lives, whether it's the lower rates, the better technology. Whether it is going into the Bush and seeing what tele-health does, whether it is, you know, looking at the fact that people can work from home on cable modems. I think that you can clearly look at GCI and say that the telecom environment in Alaska wouldn't be what it is today if GCI wasn't here. There wouldn't be the surplus of undersea fiber optical capacity. There wouldn't be upgrading cable systems. There wouldn't be the price levels that exist. There wouldn't be the quality of technology if it hadn't been -- and really it wouldn't be if it hadn't been -- for competition. And any competitive (company) that was willing to tough it out could have provided it, but we happened to be that competitor and it turned out to be a market that was pretty hostile to the idea of competition, vis-à-vis the policy structure. And I think the greatest satisfaction is that we persisted in the face of that antipathy and we overcame it and we changed it around, so that today almost anybody who doesn't work for a local telephone company will tell you that Alaska is a lot better off for having telecommunication competition.

Hilary: The flip side of that is when you look back (what do you view) as your greatest challenge?

Ron: What was the hardest to accomplish?

Hilary: Sure.

Ron: I think it would be the flip side of that same thing. It would be changing the perspective of the policy-makers. I mean, there were a lot of things that took a lot of effort and certainly a thousand-person company didn't grow by itself. And there is also an internal

culture in this company that I'm real proud of. I think we have a real commitment to employees. I think we do a real good job of getting the full mental utility out of our employees because we have created a culture that really focuses on peoples' ability to contribute. And those things are all meaningful and significant and I think, you know, they mean a lot to the people who work here. When you look out over the Christmas party and you see a thousand faces out there, you know you've touched those lives directly. But that's a byproduct of having created the economic opportunity. And, yeah, you could spend days talking about the challenges of building an organization but you wouldn't have had that opportunity had you not changed the paradigm. We changed the paradigm for the delivery of telecommunication services in the Alaska and we did it over the strenuous objection of policy makers -- some of whom were very well intentioned and had difficulty seeing beyond the existing paradigm and some of whom who had very bad intentions who were just basically doing favors for their friends at the monopolies. And I think the more interesting people when I pick up your book (will be the innovators.)

## **End of Tape 2, Side A**

## **Tape 2, Side B**

Ron: When I pick up your book, the more interesting things to me will be to look at the reflections of the people who were well intentioned but had a difficult time shifting their view to get comfortable with the new paradigm.

Hilary: And that's when (inaudible) from this perspective. I couldn't have done the book (inaud).

Ron: It was very unresolved ten years ago.

Hilary: Absolutely, yeah.

Ron: I would bet by and large today, you don't run into a whole lot of people who think competition was a colossal mistake for Alaska. We'll all be interested to hear what Marv has to say.

Hilary: Yea, so will I! You know, he's been great. He's been emailing me stuff, and I am really looking forward to seeing him. It's been a long time since I've just seen him, anyway, so it will be great. You brought up that wonderful example, with your wife, in going in the other room and looking at it. Are there other incidents or anecdotes that come to mind that capture for you what GCI's participation in this market has meant to an individual or to a business?

Ron: I think that's probably the most graphic one. The other examples that you could conjure up... but for me, that's really my favorite one because it's got an emotional hook to it, and it so clearly states out the value. Literally, you're talking, their contract price when they dispatched the Lear jet was 30 to 50 thousand dollars a pop. You know, people complain some today, about, "Oh, geez, are we spending too much on these tele-medical



circuits?” If there’s a ten or fifteen million dollar subsidy going in to support these telemedical circuits, have we really overspent on that? And you don’t have to avoid too many \$50,000 med-evacs before you conclude... and that doesn’t do anything to look at the fact that you’ve improved substantially the quality of care. That when somebody can stay in their home village and not have to go to Anchorage just to discover that, you know, all they need is one pill. The quality of life for the people goes up dramatically. That’s the place where you get the clearest spotlight on a big dollar change in the way business is done.

But there are lots of little examples: people who now work from home, people who can do things from rural Alaska. Go to Nome, and go see the, I can’t remember which one it is, it’s the air service up there, there are two of them. But when I was up there visiting a couple of years ago, I was surprised at how extensive the website that this air service had was. And as I was sitting around waiting for Alaska Airlines to be its normal two hours late, I got to talking with the air service owner and I complimented him on it and said, Well, that’s quite an investment you’ve put in on that and he said Well, yea, it’s paid off big dividends because 25% of my summer air traffic, air charter business is Far Eastern tourists who book their tours with me on the Web before they even get here. And I don’t pay a travel commission fee. So he’s got this little website that shows “Flightseeing Out of Nome,” and all these little Japanese tourists have gone and booked a year in advance before they come over and it’s through the Web. I wouldn’t have thought of that. No idea that a big part of his business was flying all these people around looking at the tundra. But...

Hilary: Especially back then. I mean, even a few years ago...

Ron: But he had found a niche through the Web and he was driving... it made a lot of sense that he spent money on a website, because he was driving business through it. So here we are out in the toolies, and I don’t know what the economics of that are, it’s not as graphic in a single event as saving \$50,000 on a med-evac, but clearly it’s a place where technology had been taken by an entrepreneur (who’d) figured out how to deploy it to make money for him out there. You can go out into rural Alaska and find lots of places, I mean, there are a lot of creative people out there who, given the right opportunity, find ways to use the technology in ways we never even dreamed of. And that’s the beauty of telecom technology today, is, when you unleash it, it all becomes just bits delivered to the end user. They have all sorts of creative new ways to use that stuff. So, all you’ve got to do is get the bit stream out to them.

Hilary: What do you wish that we would have talked about that we haven’t so far?

Ron: We’ve covered...

Hilary: We’ve covered pieces of things...

Ron: I want to read the parts on the reformed monopolists who (inaud) I think that's...[tape off]

Ron: They've got a demo tape up there that they showed Commissioner (inaud) from the FCC when she was up here of the doc in Kotzebue talking the health aide in Kiana through, actually sewing up a gaping wound in some kid's cheek, didn't even bring the kid into Kotzebue. I mean, the video camera was on, and the kid was there on the table, and... It was a little bit gross to watch if you're not a physician, but...

Hilary: But it was great for...

Ron: But it works. It's a technology that's making a big difference. It's just one example. Any time you can move information without physically moving the people or the goods, in this environment, you save a lot of money, and you add a lot of value. That's what telecom does.

Hilary: (inaud) Hungarian professor (still around?)

Ron: You know, I don't know. I should check.

Hilary: You ought to check that with him and say....

Ron: Probably not. He was already in his fifties when I was in school and that was thirty years...

**End Tape 2, Side B**