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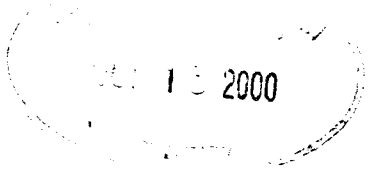

October 13, 2000

Federal Trade Commission
Office of the Secretary
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Dear Secretary Clark:

Thank you for the opportunity of commenting on the proposed consent decree in the case of the Alaska Healthcare Network, file # 991 0103. Before entering your final order, my association feels that it is important that the commissioners understand a little about the history and dynamics of the Alaska healthcare market.

Unlike the rest of the United States, HMO's and capitated risk sharing contracts have completely by-passed Alaska, in large part because of our geographic isolation and small population base (620,000). There has never been a HMO contract offered in Alaska. Nor is this likely to change, given the general pull back by carriers nationally, from offering risk sharing contracts, even in the largest metropolitan markets. What we are left with in Alaska is a small number of carriers offering either PPO or indemnity plans.

Given the unique nature and challenges of living in Alaska, attracting physicians to practice has always been difficult. And unlike most markets in the lower forty-eight states, there continues to be a relative shortage of physicians even within the Anchorage market, let alone the rest of the state.

To give you some flavor of the healthcare market in central and northern Alaska, consider the following; four of the "relevant physician markets," identified in the consent decree as needing structural relief in Fairbanks, include just 7 pediatricians, 10 obstetricians, 11 orthopedic surgeons and 6 general surgeons. It should be noted that they serve a population of approximately 250,000 people spread out over an area larger than the state of Texas (approximately 300,000 square miles.) This is probably the most rural market in the United States, and the number of specialists who serve them is tiny.

Without discussing the specific allegations of wrong doing in the complaint, I would like to address the structural remedy proposed in the order. In paragraph 3, for five identified "relevant physician markets," percentage membership limitations are imposed (30% or 50%) depending on whether or not AHN operates a qualified or non-qualified risk sharing arrangement. In addition, paragraph 3 outlines "grandfather provisos," for pre-existing practice groups, and new solo physicians added to those groups.

In the words of the majority of the commissioners, "As a result of these provisos, once AHN is operating in conformity with percentage limitations contained in the order, it will not be required to reduce its physician membership because of (1) the addition of a physician (who was not already in practice in Fairbanks) to a member practice group, or (2) a reduction in the total number of physicians in a particular specialty (and thus in the denominator used in calculating the percentage of physicians in a specialty who can be AHN members) as a result of physician exit from the market."

By creating these "grandfather provisos," the commissioners are tacitly admitting that their structural remedy is not a good fit for a market as small a Fairbanks, and that absent the exceptions, the order would likely lead to a degradation of the healthcare services market in Fairbanks, by creating an environment so hostile to the formation of physician groups, that physicians would either choose to leave the market or not enter the market in the first place.

But the necessity for inclusion of the "grandfather provisos," as pointed out by commissioners Swindle and Leary, defeats the purpose of the percentage limitations. Commissioners Swindle and Leary said in their separate statement that, "Although we believe that limits on a physician group's "market share" in particular specialties can be appropriate...we are not persuaded that this provision will operate in a rational and predictable way in a market as small as Fairbanks."

We agree.

The bottom line is that a proposed structural remedy, in form of percentage limitations on AHN membership, absent the "grandfather provisos," would do great damage to the citizens of central and northern Alaska by discouraging physicians from wanting to practice there. And an order, which includes the "grandfather provisos," defeats the structural remedies' primary purpose, and will probably damage the healthcare market anyway.

In closing, my association feels that Alaska is not the place for the FTC to be experimenting with new rules, which we feel are inappropriate for so small a market. The proposed order will lead to the creation of a hostile environment for healthcare providers, an environment Alaskans can ill-afford, given how few of us there are, our geographic isolation, and the immense size of our state.

Sincerely,

Michael Haugen, JD, MBA
Executive Director