Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of )
Verizon Request for Declaratory Ruling, or ) WT Docket No. 06-150
in the Alternative, for Partial Waiver )
Regarding the Handset Locking Rule for )
C Block Licensees )

COMMENTS OF PINE BELT CELLULAR, INC.

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SUMMARY

Pine Belt Cellular, Inc. (“Pine Belt”), by its attorneys, files these Comments in response to the Federal Communications Commission’s (“FCC” or “Commission”) Wireless Telecommunications Bureau’s (“WTB” or “Bureau”) March 5, 2019 Public Notice, through which the Bureau seeks comment on Verizon’s Petition for Declaratory Ruling, or in the Alternative, for Partial Waiver of section 27.16(e) of the Commission’s C Block licensing rules (“the handset locking rule”), so that it can implement a 60-day lock on all of its 4G LTE handsets.

Pine Belt urges WTB to deny both Verizon’s request for a declaratory ruling and its request for a partial waiver of the handset locking rule. With respect to the former, Verizon’s arguments in support of a declaratory ruling are illogical, wrong, and run contrary to the underpinnings of the handset locking rule and the reasons why it was adopted. With respect to the latter, Verizon’s 60-day locking proposal and partial waiver would have numerous negative effects on rural consumers, small, rural carriers, and market competition, far outweighing any “public benefits” that might otherwise be created.

Finally, Pine Belt reiterates its opposition to device locking in general, and encourages the Commission to not only retain its prohibition against the locking of traditional mobile phones operating in the 700 MHz Block C Band, but to also prohibit the locking of any user equipment, irrespective of manufacturer or application, that relies on licensed spectrum for its upstream network connectivity.
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Verizon Request for Declaratory Ruling, or in the Alternative, for Partial Waiver Regarding the Handset Locking Rule for C Block Licensees

WT Docket No. 06-150

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1 Pine Belt is a commercial mobile radio service provider operating in rural Alabama.
2 Wireless Telecommunications Bureau Seeks Comment on Verizon’s Petition for Declaratory Ruling, or in the Alternative Partial Waiver, of the Commission’s C Block Licensing Rules, Public Notice, WT Docket No. 06-150 (March 5, 2019) (“Public Notice”).
3 Verizon Request for Declaratory Ruling, or, in the Alternative, for Partial Waiver, WT Docket No. 06-150 (Feb. 22, 2019) (“Verizon’s Petition”).
I. BACKGROUND AND INTRODUCTION

Eleven years ago, when Verizon acquired licenses to operate its 4G LTE network over the 700 MHz Block C Band, it did so knowing that it would be required to sell all of its LTE devices unlocked for use on any network and in compliance with section 27.16(e)\(^4\) of the Commission’s rules.\(^5\) Since then, Verizon has acknowledged, complied with, and even publicly touted the benefits of this requirement,\(^6\) and as the only wireless carrier selling its phones unlocked out of the box it has provided consumers and small, rural carriers like Pine Belt with numerous benefits, such as the freedom to switch carriers and service at consumers’ discretion and a competitive marketplace that allows rural carriers to remain affordable and attractive to the rural consumer.

Now, however, Verizon would like to interpret out of existence or otherwise avoid this decade-old requirement on the basis that section 27.16(e) does not prevent Verizon from implementing its proposed policy of locking all handsets for a 60-day period (or that, if the rule does apply, Verizon should be freed from following it). Verizon’s requests should be denied. Its arguments in support of a declaratory ruling are wrong, and its argument that such a policy is

\(^4\) 47 C.F.R. § 27.16(e).

\(^5\) The Commission adopted the handset locking rule contained in section 27.16(e) in August 2007. See In re Service Rules for the 698-746, 747-762 and 777-792 MHz Bands et al., Second Report and Order, 22 FCC Rcd. 15289, 15501 (2007) (“700 MHz Order”). And while Verizon repeatedly opposed this rule – going so far as to file a lawsuit in the United States Court of Appeals for the District of Columbia Circuit to overturn it – the carrier nonetheless chose to pay over $4.7 billion dollars for a large portion of the 700 MHz C Block Band in early 2008. See Auction of 700 MHz Band Licenses Closes, Public Notice, 23 FCC Rcd. 4572, Att. A (2008) (listing Verizon’s winning bids in the 700 MHz C Block, which totaled $4,741,807,000.00). Indeed, Verizon elected to pay this much knowing full well that, under the Commission’s 700 MHz auction rules, in the event the C Block auction results “do not satisfy the applicable aggregate reserve price [of $4.6 billion] for those licenses, the Commission will offer alternative licenses without the open platform conditions.” Auction of 700 MHz Band Licenses Scheduled for January, Public Notice, 22 FCC Rcd. 18141, 18146, ¶ 7; see also id. at 18195, ¶ 199 (2007).

\(^6\) See, e.g. Verizon Wireless To Introduce Any Apps, Any Device Option for Customers in 2008, VERIZON (Nov. 27, 2007).
necessary to combat fraud and identity theft should not be accepted, as that argument has been previously rejected by the Commission, and is outweighed by the consumer and competitive benefits that the Commission’s handset locking rule provides to the public and to rural carriers, like Pine Belt.

II. THERE IS NO CONTROVERSY OR UNCERTAINTY REGARDING SECTION 27.16(E) WARRANTING A DECLARATORY RULING

As Verizon notes, the Commission may issue a declaratory ruling terminating a controversy or removing uncertainty.\(^7\) Here, there is no controversy or uncertainty. Section 27.16(e) is clear on its face. The rule provides that no C Block licensee may “disable features on handsets it provides to customers … nor configure handsets it provides to prohibit use [] on other providers’ networks.”\(^8\) Verizon does not deny that it is disabling features (at least temporarily). Verizon argues only that the handsets it disables are not provided to “customers” because, in Verizon’s view, the Commission, when adopting Section 27.16(e) meant to define “customers” as “legitimate customers” and meant to exclude from the definition of “customer” those individuals who were not “legitimate customers.”\(^9\) Webster’s Dictionary defines “customer” as “one that purchases a commodity or service.”\(^10\) It defines “purchase” as “to obtain by paying money.”\(^11\) Accordingly, under Section 27.16(e), an individual that pays money for a commodity or service is a customer, and Verizon’s attempt to exclude such individual from such definition

\(^7\) See Verizon’s Petition at 11.
\(^8\) 47 C.F.R. § 26.16(e).
\(^9\) See Verizon’s Petition at 11-13. Verizon’s brief, unsubstantiated assertion that its temporary lock does not constitute “configuring” a device to “prohibit” use on other networks also does not establish that the regulation, as written, is uncertain. Indeed, the term “prohibit” has been defined as “preventing something by making it impossible.” See Prohibit Definition, Cambridge Dictionary (2019 ed.). The fact that Verizon’s configuration of a device to prohibit use on other networks may only be temporary does not change the fact that Verizon’s proposal would violate the rule. This is a strict, bright-line standard, and Verizon’s interpretation of such rule permitting a 60-day handset lock runs contrary to it.
\(^10\) Customer Definition, Merriam-Webster Dictionary (2019 ed.).
\(^11\) Purchase Definition, Merriam-Webster Dictionary (2019 ed.).
based on the individual’s behavior after such purchase falls completely outside the scope of the rule. The rule is clear on its face and there is no uncertainty to be resolved.

Of course, even if the Commission were to determine that a controversy exists, Verizon has provided no basis for adopting its proposal. Verizon attempts to interpret section 27.16(e) in such a way that this regulation somehow allows device locking, but only for a very particular period of time. While Verizon agrees that the handset locking rule should be read to apply to it and the handsets it provides to its customers,\(^{12}\) the carrier would have the rule apply to it only 61-plus days after Verizon has provided a customer with a handset.\(^{13}\) Verizon’s argument is illogical and inconsistent with the Commission’s reasons for adopting the handset locking rule in the first place.

Moreover, even if the Commission were to accept Verizon’s suggestion that the regulation or terms within the regulation are ambiguous, its Petition and requested interpretation would run contrary to the Commission’s intentions for adopting the rule in the first place. As explained more thoroughly below, the Commission adopted the handset locking rule in the hopes of “implement[ing] pro-consumer concepts” and encourag[ing] innovation in network devices and applications.”\(^{14}\) It considered and rejected at that point Verizon’s assertions that handset locking was necessary to prevent fraud,\(^ {15}\) determining that such assertions were outweighed by the consumer benefits of complete device unlocking.\(^ {16}\) If the Commission were to now grant Verizon’s Petition for Declaratory Ruling, it would be allowing the carrier to make an end-run around these prior findings.

\(^{12}\) See Verizon’s Petition at 11 (recognizing that “[r]ule 27.16(e) prohibits Verizon from locking handsets of ‘customers’”).

\(^{13}\) See id. at 11-14.

\(^{14}\) 700 MHz Order, 22 FCC. Rcd. at 15364, ¶ 203.

\(^{15}\) See id.

\(^{16}\) See id.
III. VERIZON’S PETITION FOR PARTIAL WAIVER OF THE HANDSET LOCKING RULE SHOULD ALSO BE DENIED

While Verizon claims that its Petition for Partial Waiver requesting a 60-day handset locking period is itself in the public interest, the “benefits” that such a 60-day locking period would provide are far outweighed by the public benefits that are derived from Verizon’s continued compliance with the handset locking rule, which the Commission previously determined in 2007 when Verizon made the same argument. Accordingly, Verizon has not proven that a grant of partial waiver of section 27.16(e) would actually be in the public interest. Its Petition for Partial Waiver should thus also be denied.

A. The Handset Locking Rule Provides Many Public Benefits

As Verizon itself recognizes, at the time the Commission adopted its C Block handset locking rule in 2007, its stated goals were to increase (1) choices for consumers of wireless services and (2) competition.17 To date, this is exactly what the handset locking rule has done, providing benefits to both consumers and small, rural wireless carriers – and even Verizon itself. Removing this requirement, then, would likely have the opposite effect, and even a 60-day locking period could negatively impact consumers and competition in ways that run contrary to the Commission’s justification for adopting the handset locking rule in the first place.

1. The Handset Locking Rule Increases Choices for Consumers of Wireless Service

Indeed, through section 27.16(e), Verizon subscribers are given the freedom to, at any time, switch carriers for better wireless coverage or better priced services and keep their existing handsets – a freedom of choice that no other carrier provides, and a freedom that likely explains, in part, why so many consumers initially select Verizon as their wireless provider. Obviously,

17 See Verizon’s Petition at 15.
all consumers benefit from the freedom of choice that unlocked handsets provide; however, the advantages are more frequently felt by those who live in rural areas.

For example, while both urban and rural consumers want to buy the latest and greatest mobile devices, rural consumers may be dissuaded from doing so because the larger carriers offering these devices do not provide strong service – or possibly *any* service – near the rural consumer’s home or place of business. Where this occurs, rural consumers’ only hope of being able to take advantage of the latest and greatest mobile device, given that no rules or regulations exist to require or even encourage equipment manufacturers to engage with the small, rural carrier on reasonable business terms, may completely depend on rules like those established in section 27.16(e), as such rules allow consumers to purchase a handset from a national carrier, like Verizon, and then immediately switch to a small, rural carrier’s service in order to have better wireless coverage while at home. In these circumstances, even a 60-day locking period would cause substantial issues for the rural consumer who takes advantage of this codified freedom of choice, forcing upon him or her the various problems that are associated with degraded service, which include, at best, a general inconvenience and, at worst, a major safety concern.

2. The Handset Locking Rule Allows Rural Carriers to More Effectively Compete and Provide Innovative Services

Importantly, though, it is not only consumers who find value in the unlocked devices that Verizon provides, as small, rural carriers also recognize benefits that, in turn, allow them to compete against larger carriers and simultaneously provide affordable, efficient, and reliable service to areas and populations that would otherwise go underserved or unserved. Many small, rural carriers provide highly competitive wireless services in their operating regions; however, due to their more restricted buying power, they do not always have access to the myriad of
popular and most recent wireless telephone handsets that larger service providers like Verizon can easily buy in bulk.

Thus, allowing consumers in rural America to purchase devices from larger carriers, like Verizon, and then immediately transfer those devices for use on rural carriers’ networks also allows rural carriers to more effectively compete for subscribers by focusing not on purchasing the most popular – and oftentimes most expensive – devices, but rather on monitoring, sustaining, and improving their networks and subscriber satisfaction. Even a 60-day lock on those devices sold by Verizon could sap these rural carriers’ resources and undermine their ability to compete, as such a lock would take away from rural carriers at least two months of subscriber payments and fees that otherwise may have been collected if rural customers were allowed to immediately transfer service upon purchasing their handset from Verizon. While this may not seem like much to a large carrier like Verizon, the aggregate impact could have a compounding effect on the financial challenges faced by rural carriers, which in turn could negatively impact competition by forcing rural carriers to put off or limit network investment.

B. The Commission Previously Rejected Verizon’s Fraud Prevention Argument and any Slight Reduction in the Fraud that Remains if Verizon’s Petition Were to Be Granted Should Not Take Precedence Over the Public Benefits the Handset Locking Rule Provides

In support of its Petition, Verizon repeatedly asserts that a 60-day handset locking period is necessary in order to combat fraud and identity theft, which, it claims, continue to harm Verizon’s customers and consumers generally.\(^\text{18}\) However, the Commission rejected the same argument as made by Verizon in 2007 when the agency adopted the handset locking rule, and since Verizon last made these arguments the only thing that has changed is the successful fraud monitoring and mitigation strategy that Verizon has implemented. Accordingly, WTB should

\(^{18}\) *See id.* at 16-17.
reject Verizon’s fraud-based arguments just as the Commission did in 2007, as any slight reduction in the possibility of fraud and identity theft that may result from Verizon’s 60-day handset locking proposal does not outweigh the negative effects said proposal will have on rural consumers and small, rural carriers like Pine Belt.

Verizon’s Petition relies substantially on a decade-old policy justification that the Commission rejected when it adopted the handset locking rule. When Verizon launched its all-out attack on the Commission’s C Block licensing rules in 2007 and on other various “open access” rules that broadband and Internet access providers had proposed, it repeatedly asserted that such rules should not prohibit handset locking, because handset locking is designed to “protect [carriers’] investments and deter fraud.”19 The Commission, however, was not persuaded by Verizon’s argument and instead chose to adopt section 27.16(e) for handsets operating on the 700 MHz C Block because of the benefits such a rule would provide to consumers and the competition such a rule would help develop. As the Commission explained:

We are mindful that some of the restrictive practices set forth in the record appear to be used by wireless service providers for purposes other than simply protecting the network from harm. We also recognize supporters’ argument that the 700 MHz Band offers an opportunity to encourage innovation in network devices and applications in spectrum with valuable propagation characteristics, without adversely affecting 700 MHz Band licensees’ network operations or viability. The 700 MHz Band provides a rare opportunity to implement pro-consumer concepts without disrupting an existing service…. In these circumstances, we conclude that prohibiting a provider’s ability to unreasonably limit applications and devices on its network in [the C Block] portion of the 700 MHz Band is both appropriate and feasible.20

19 See Letter from C. Rath, Executive Director – Spectrum and Public Policy, Verizon Wireless, to M. Dortch, Secretary, FCC, Att. A at 23 (July 25, 2007) (“Verizon Wireless’s July 25 Letter”); see also Letter from J. Scott III, Vice President & Deputy General Counsel – Regulatory Law, Verizon Wireless, to M. Dortch, Secretary, FCC, at 2 (July 27, 2007) (“Verizon Wireless’s July 27 Letter”); 700 MHz Order, 22 FCC. Rcd. at 15359, ¶ 190 n.430 (“Handset or phone ‘locking,’ for example, is one practice that arguably prevents consumers from migrating otherwise technically compatible equipment from one wireless service provider to another. Providers claim that it is a practice designed to combat fraud.”)
20 700 MHz Order, 22 FCC. Rcd. at 15364, ¶ 203.
Thus, the Commission took into consideration the carriers’ reasons for handset locking, including the anti-theft and fraud prevention arguments made by Verizon, and determined that the benefits handset unlocking would provide to consumers and competition outweighed any such possible detriments.

Since the Commission reached this decision, fraud prevention has improved, with Verizon taking “extensive steps” to ensure that its unlocked devices do not make their way onto the black market, including adopting internal fraud detection and identity authentication programs and policies and participating in international fraud prevention efforts, such as GSMA’s International Mobile Equipment Identity (“IMEI”) database.21 As the carrier itself recognizes, these fraud prevention efforts have themselves been widely successful,22 and any new fraud prevention that results from the 60-day locking period will only capture a “small minority” of remaining fraudsters.23 Identifying this “small minority” of bad-faith actors should not, however, take precedence over the benefits section 27.16(e) currently provides to the public at large, as the minor financial benefit such a rule would provide to a large carrier does not even come close to outweighing the negative effects such a rule would have on rural consumer choice and the ability of small, rural carriers to effectively compete for customers and provide sustained, reliable service.

21 See Verizon’s Petition at 6-7.
22 See id.; see also id. at 14 (“Verizon can and does take extensive precautions to try to sign up only legitimate customers, and is successful the overwhelming majority of the time.”).
23 See id. at 14 (noting that, without at least a 60-day handset locking period, “Verizon cannot definitively identify the small minority of fraudsters that manage to defy Verizon’s security mechanisms”).
IV. PINE BELT URGES THE COMMISSION TO PROHIBIT MANUFACTURERS AND CARRIERS FROM LOCKING ANY USER EQUIPMENT THAT RELIES ON SPECTRUM FOR ITS UPSTREAM NETWORK CONNECTIVITY

In addition to opposing Verizon’s Petition, Pine Belt would also like to take this opportunity to reiterate its opposition to device locking in general, and encourages the Commission to not only retain its prohibition against the locking of traditional mobile phones operating in the 700 MHz Block C Band, but to also prohibit the locking of any user equipment, irrespective of manufacturer or application, that relies on licensed spectrum for its upstream network connectivity.

Today, manufacturers of wireless equipment – whether it is a phone, tablet, or the 4G-LTE transceiver that comes standard in many if not most vehicles rolling off the assembly lines today – design their devices to operate on a wide range of national and global wireless networks using chipsets that can accommodate many frequency bands and that can process signals using different networking standards. Yet, the national carriers continue to be able to lock these devices to a single network, something which very negatively effects consumer choice and greatly impedes competition.

Indeed, consumers are harmed in multiple ways due to device locking, as they are forced to either acquire new wireless devices when they switch operators or, in the event another operator does not sell that particular device, forgo switching carriers or forgo ever using that type of device again. For example, in the case of vehicle-installed 4G LTE transceiver equipment, the consumer’s only choice is to subscribe to the service of the chosen carrier or to not have the equipment activated at all since the device itself is embedded deep in the vehicle’s component structure, which is not user replaceable. As such, if the consumer happens to live and work in a rural area that may not be adequately served by the carrier, the device becomes little more than
dead weight. Device owners may also terminate a carrier subscription, paying an early termination fee when applicable, and later attempt to subscribe to a different network without knowing that they cannot take their device with them, making the overall problem and costs associated with device locking even worse. Moreover, locked wireless devices hinder the market for used or deactivated devices, and since many consumers – especially in rural areas – give their old equipment to family members or friends (or donate such equipment to third-party charities), such a policy can have a reverberating and compounding negative effect on the general public.

At a minimum, then, device locking increases the costs borne by consumers; however, in most cases, the negative effects are far worse, establishing an artificial barrier within the market that hinders competition among providers as well, who will be less incentivized to improve their networks or pricing and service levels due to the lack of carrier choice a consumer has. As the National Telecommunications and Information Administration (“NTIA”) has previously noted in its own device unlocking efforts, “[e]nabling consumers to switch between carriers without losing their investment in wireless devices would enhance competition, which, in turn, should produce more service innovation, lower prices, and more consumer-friendly terms and conditions,”24 all of which are ideals that WTB and the Commission should strive to meet.

The benefits of device unlocking are clear, and the negative effects caused by carriers’ current locking policies make Pine Belt’s request a reasonable one. The Commission should give consumers greater freedom, enhance consumer welfare, and increase competition by prohibiting carriers from locking any type of user equipment that relies on licensed spectrum for its upstream network connectivity.

24 See National Telecommunications and Information Administration, Petition for Rulemaking of the National Telecommunications and Information Administration, at 11 (filed Sept. 13, 2013).
V. CONCLUSION

As discussed above, Pine Belt urges WTB to deny both Verizon’s request for a declaratory ruling and its request for a partial waiver of the handset locking rule. Verizon’s arguments in support of a declaratory ruling are wrong, and its 60-day locking proposal would have numerous negative effects on rural consumers, small, rural carriers, and market competition. Moreover, Pine Belt reiterates its opposition to device locking in general, and encourages the Commission to not only retain its prohibition against the locking of traditional mobile phones operating in the 700 MHz Block C Band, but to also prohibit the locking of any user equipment, irrespective of manufacturer or application, that relies on licensed spectrum for its upstream network connectivity.

Respectfully submitted,

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