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CAPITAL MARKET FINANCING OF PERSONAL COMMUNICATIONS SERVICES

A Presentation to the Federal Communications Commission on April 11, 1994

Presented by: Mark A. Roberts, CPA
(410) 783-5340

Submitted by: George V. Robertson, CFA
(410) 783-3266
Mark A. Roberts, CPA
(410) 783-5340

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We would like to thank members of the Commission and staff for the opportunity to present our views on Personal Communications Services. We have paid particular attention to those issues that we believe will affect the ability of PCS licensees to finance the deployment of PCS networks.

INTRODUCTION

We believe that Personal Communications Services (PCS) will be rapidly deployed at price points likely to stimulate significant demand and foster rapid growth if licensees can acquire large blocks of contiguous spectrum covering large, economically significant geographic areas. Competition will likely be the driving force behind the deployment of PCS and we see significant linkage between the rapid deployment of PCS and regulatory efforts to introduce competition into other forms of voice, video and data communications. Also, the ability of PCS to compete with cellular is critical because full cellular mobility is the first visible market for new PCS entrants. The nature of PCS will tend to favor large communications services providers because:

-- PCS networks are going to be very capital-intensive, fixed-cost networks requiring a heavy investment well in advance of any revenues and investment returns. Before they can offer meaningful service, PCS networks will need to have initial coverage areas, service options and quality levels as least as good as today's current cellular networks and

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they will have to add subscribers while cellular service providers and Specialized Mobile Radio (SMR) operators are aggressively trying to preempt competition; and,

-- PCS makes the most economic sense and has the highest value to the licensee when it is leveraged off of an existing wireline backbone built for some other purpose such as: a telephony local loop, Competitive Access Provider loop, CATV network or an Interexchange Carrier (IXC) Point-of-Presence (POP).

LICENSE STRUCTURE ISSUES THAT WILL MAKE PCS A VIABLE BUSINESS

Minimum of 30Mhz of contiguous bandwidth is needed

Competition for customers is the issue that will drive the deployment and further the success of PCS. If the FCC intends to create competition for cellular services then, at a minimum, new PCS entrants must be able to get contiguous blocks of spectrum in the auction in order to allow network efficiency similar to the incumbent cellular service providers which have 25Mhz in the 800-900Mhz band. It is our opinion that 30Mhz appears to be the minimum license size that will allow new PCS service providers to effectively compete with the incumbent cellular service providers. License sizes of less than 30Mhz are likely to permanently lock in premium investment returns for the cellular industry and inhibit the deployment of PCS networks by forcing PCS providers to use small cell sizes which restrict hand-off and which would make it difficult for PCS providers to ever offer high bandwidth multi-media services.

If the FCC intends to create competition for LEC services, then PCS service providers must be able to deploy the infrastructure at a per subscriber cost similar to wireline telephony. We believe licenses of 30Mhz of contiguous bandwidth would allow for the most rapid deployment of PCS networks capable of offering mass-market, wireless, local-loop services.

Minimum of MTA-sized licenses are needed

New PCS entrants need to be able to rapidly offer seamless mobility at least in an area that encompasses a rational economic region--such as the proposed MTA license sizes. Smaller license sizes, such as the proposed BTA's, will require a period of aggregation which will be time-consuming and costly.

Structure the licenses to reduce the required time to market

Potential PCS licensees will tend to bid the highest for licenses and will have the easiest access to financing if the risks and uncertainties have been minimized. New PCS entrants will be required to develop business models based on certain competition with existing cellular service providers and emerging SMR networks. Both cellular and SMR services are moving toward becoming mass-market products. Consequently, the longer the delay in PCS's entry into the market, the lower the expected investment returns, which will in turn raise the cost of capital and reduce the amount bidders are willing to pay for the licenses. Factors which could cause a delay in the meaningful introduction of PCS are:

-- Licenses of less than 30Mhz of bandwidth which may require a substantial period of spectrum clearing and after-market aggregation before meaningful services can be offered; and,

-- Licenses of small geographic size which may require after-market aggregation to achieve region-wide metropolitan coverage.

THE CAPITAL MARKETS ARE WILLING TO FINANCE THE DEPLOYMENT OF PCS

If the licenses are properly structured, we believe the capital markets will be willing to finance the license acquisition, the build-out and the operation of new PCS networks. Alex, Brown currently has a number of corporate clients involved with PCS as potential service and technology providers and we view the market for these products and services as very attractive. However, we believe PCS networks eventually will be competitive with cellular and local telephony which tend to favor large, well-financed sophisticated communications network operators with access to large amounts of low-cost capital. The capital market financing needed to bid for PCS licenses is most likely only available to large, well-financed communications companies that have other sources of income from existing communications networks.

WAYS TO CREATE REALISTIC OPPORTUNITIES FOR DESIGNATED ENTITIES

In an environment where spectrum is abundant, as we believe it will be, the economics of PCS tend to favor large, well-financed communications providers accustomed to operating network investments that have commodity returns. Encouraging designated entities to partner with the large service providers by establishing a lengthy period before licenses could be transferred and by requiring that designated entities retain a significant equity stake in the license could result in more realistic opportunities for designated entities. There could also be an opportunity for designated entities to offer vertically integrated, value-added services over PCS networks without becoming PCS licensees.