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OFFICE OF SECRETARY

April 22, 1994

Ms. Gail Brown
Private Radio Bureau
Federal Communications Commission
2025 M Street, NW Room 5002
Washington, DC 20554

RE: Cellular eligibility to acquire PCS licenses

Dear Ms. Brown:

On behalf of **Pacific Bell and Nevada Bell**, please find enclosed an original and six copies of their Comments *pursuant to the FCC's April 4, 1994, News Release regarding Panel Discussions on PCS*. We request that a copy of these comments be placed in General Docket 90-314.

Please stamp and return one copy to confirm your receipt. Please call me if you have any questions or need additional information concerning this matter.

Sincerely,

William F. Adler /KOP

cc: PCS Task Force

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DEPARTMENT OF ECONOMICS
STANFORD, CALIFORNIA 94305-6072

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Paul R. Milgrom
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April 22, 1994

Gail Brown
Private Radio Bureau
Room 5002
Federal Communications Commission
2025 M Street NW
Washington, DC 20554

Re: Cellular eligibility to acquire PCS licenses

Dear Ms. Brown:

I am writing at the request of Pacific Bell and Nevada Bell to comment on the issue of the eligibility of cellular phone companies to acquire additional spectrum in their service areas. In comments to the PCS task force on Tuesday, April 16, one panelist advocated allowing the cellular companies to participate fully in the new PCS industry. To facilitate that, the panelist further advocated dividing the spectrum into six 20 MHz blocks, with the idea that this would allow cellular companies to acquire additional spectrum without threatening competition in the wireless business.

I share the panelist's view that the nation's interests are best served by promoting active competition in wireless services, but I disagree with his analysis of how best to accomplish that.

At present, there are some 16 million customers for cellular telephone services, with new customers being signed up at the rate of 14,000 per day. The best opportunity to acquire new customers for a wireless service is now, while the industry is still growing rapidly and while older customers, many still using analog cellular technologies, are prime to be shifted over to the superior digital PCS services. If competition is to be encouraged in wireless services, the FCC should structure its rules to facilitate the entry of new PCS providers and expansion of the PCS network as quickly as possible.

The cellular companies do not share the Commission's desire for rapid growth and expansion of the new PCS services. Their interest is to delay the issuing of licenses, the formation of PCS networks once licenses are issued, agreements on PCS standards, and so on. In general, they benefit from delays in the emergence of competition in their markets as they continue their lightly contested pursuit of new

wireless customers. Any delay tactics they adopt would be a variant of the "raising rivals' costs" strategy so familiar to students of industrial competition. The positions taken by the cellular companies in this docket provide direct evidence of their desire to delay, as they argue for the need to "take the time to get things right." With quick action being extremely important to the development of competition in this industry, the potential for mischief by cellular companies allowed to participate in the industry is great.

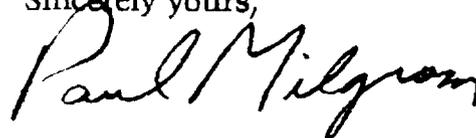
The rapid introduction of new PCS services that would be most beneficial to consumers and the U.S. public will necessitate that the new entrants have access to 30 MHz bandwidths. These wide bands are needed to allow the new entrants to engineer around the existing microwave users in their bands during the first years of PCS service and to provide bandwidth intensive new services, such as video services, as the technology advances. The proposal to issue narrower 20 MHz licenses could substantially delay the introduction of PCS services by new entrants and force them to choose between 20 MHz or 40 MHz bands for their ultimate system.

Of course, the damage created by unrestricted cellular participation would be even greater if the cellular companies were permitted to acquire 30 MHz bands. Such a plan would reduce the number of new entrants and virtually guarantee high levels of concentration in the ultimate industry structure, contributing to higher prices and poorer, less innovative services for American consumers and a loss of technological leadership.

Creating a proliferation of six 20 MHz bands would also undermine the Commission's objective of encouraging participation in the new PCS industry by small businesses, and women- or minority-owned businesses. There is little prospect that six new PCS entrants can succeed in a wireless market already occupied by two cellular and one ESMR provider. The likely result would be that some licenses will be orphaned. Those acquired by the designated entities seem the most likely ones to suffer that fate.

For all these reasons, I urge you to maintain the proposed restrictions on participation by cellular companies in the provision of PCS services and to make 30 MHz bands available for use by the new PCS entrants.

Sincerely yours,

A handwritten signature in black ink that reads "Paul Milgrom". The signature is written in a cursive, flowing style.