



LEGEND:

- 85 - 88 SITE
- 89 - 91 SITE
- 92-93 SITE
- 94 SITE

CELLULARONE

Bay Area Cellular Telephone Company

SITE CONFIGURATION

REVISION, 004

BUSINESS

Do your odds stack against best? Find out by calling City-line at (416) 512-5000. Enter 5000 for market info. Enter 5001 for Stock quotes.

* 1 change from previous		
DATE	OPEN	CLOSE
09/14/1994	1.075.00	-10.00
09/13/1994	1.085.00	-1.00
09/12/1994	1.095.00	-1.00
09/11/1994	1.105.00	-1.00

Cellular phone rates continue to decline

New technologies help roll back costs

By Wendy Tanaka
OF THE BUSINESS STAFF

As competition in the wireless phone industry continues to heat up, cellular companies increasingly are looking for new ways to market their services.

The latest tactic comes from South San Francisco-based Cellular One, which unveiled a new rate plan called Digital Flex on Wednesday.

Under the new plan, per-minute time charges for use of Cellular One's digital network decrease as usage increases.

For example, a customer whose average monthly bill is \$100 will save about \$12 a month or \$160 a year if he switches to the new rate plan.

"The more you use, the more you save," said Sue Swenson, president of Cellular One.

Two weeks ago, Pleasanton-based GTE, the other cellular service provider in the Bay Area, introduced a new rate plan dubbed Double Your Minutes, in which customers can get extra calling time free.

Joe DeUlia, an attorney and telecommunications advisor for the state Public Utilities Commission, called Cellular One's announcement a "non-event, but indicative of where wireless costs are headed, and that's down."

According to industry statistics, overall charges for cellular phone use have declined about 10 percent over the last few years in response to a burgeoning new wireless technology called personal communications services, or PCS.

PCS is a range of radio frequencies that can be used to send verbal communication as well as data between two points that cellular technology can't handle. Sending computer data through portable phones is one of the more popular uses being proposed.

NexTel Communications has been selling its PCS-like dispatch-

San Francisco Examiner
September 14, 1994

[See CELLULAR, B-3]

• **CELLULAR** from B-1

Cellular One cuts phone service rates

ing digital equipment to Bay Area companies for the past few months. Pacific Bell is scheduled to roll out its version by year's end.

California has 2 million cellular users, the most of any state in the country. Industry experts say the state's car culture has created the perfect breeding ground for cellular

phone-use.

According to industry statistics Southern California has the highest percentage of users, followed by the Bay Area.

The average cost of a hand-held phone in the state is around \$200. Users are charged a basic monthly rate of \$45. After that, every minute on a cellular phone can cost up to 45 cents.

Cellular phone rates in S.J. fourth highest in the nation

BY DAVID BANK
Mercury News Staff Writer

Cellular phone users in San Jose pay more for their service than users almost anywhere else in the country because limited competition has not led to lower prices.

San Jose and Los Angeles ranked among the five most expensive areas for cellular service in a survey conducted by The Yankee Group, a Boston consulting firm. In both markets, cellular providers have been able to keep prices high because of strong customer demand.

Cellular use was most expensive in New York, Hartford, Conn., and Philadelphia also made the top five.

The average annual bill in San Jose was \$1,234, 59 percent more than in Milwaukee, the cheapest city in the country for cell phone use, according to the survey.

"Cellular ain't no bargain in California," said Mark Lowenstein, a Yankee Group analyst.

"There is great demand in California. People spend a lot of time in their cars in California. People like to have the latest thing in California," he said.

The high prices have long angered California consumers and troubled regulators. The costs of cellular phones have declined by as much as 90 percent since they were introduced in 1984, but service costs have barely budged despite declining operating costs for cellular carriers.

The California Public Utilities Commission and the U.S. General Accounting Office have both concluded that cellular rates in California are among the highest in the nation.

Industry discomfirt

The results of the new survey will probably make cellular operators uncomfortable because they come as the industry is seeking to escape state regulation. Congress moved to bar states from regulating the cellular industry unless the states prove that continued regulation is necessary. California is one of eight states that filed such a petition last month, a move cellular carriers opposed.

In its petition, the PUC said, "Market forces are not yet adequate to protect California customers from paying unjust and unreasonable rates."

The situation is rooted in the "duopoly" structure created in 1981 when the Federal Communications Commission awarded only two cellular licenses in each market. Most analysts now agree that two carriers are not enough to create meaningful competition.

In the Bay Area, the two licenses are held by Cellular One, a joint venture of Airtouch Communications Inc. and McCaw Cellular Communications Inc., and GTE Mobilnet. Other companies, known as resellers, purchase wholesale cellular time from the two carriers to market to consumers.

Prices fall elsewhere

The absence of more competitors alone does not explain high prices locally, since the same situation exists in every market. Between 1985 and 1993, the price of basic cellular service came down by more than 30 percent in New Orleans, Denver, Minneapolis, Atlanta and Pittsburgh.

Cellular industry lobbyists and cellular company executives are fond of blaming California regulators. The PUC requires carriers to file price changes and has regulations to keep prices from going even higher.

That begs the question of why some California markets, such as Sacramento, rank among the least-expensive areas in the country.

Analysts say each market has its own dynamic. In some areas, companies seek to boost market share by cutting prices, while in others, demand is strong enough to keep both growth rates and profit margins high.

Lucrative markets

The Bay Area and Los Angeles, two of the most lucrative cellular markets in the nation, fall into the latter category. The number of new customers in both markets has allowed the carriers to keep pace with the 30 percent to 40 percent growth rate in the cellu-

PRICES STILL HIGH

Prices of cellular telephones have dropped as much as 90 percent in the decade since they were introduced, but the price for using them has remained stubbornly high. The reason: a lack of competition between cellular network operators and their desire to keep profit margins high. Costs do vary significantly by region as operators find out just how much local customers are willing to pay.

Most expensive

	Average annual cost ¹
New York	\$1,461
Los Angeles	1,305
Hartford	1,266
San Jose	1,234
Philadelphia	1,205

Least expensive

	Average annual cost ¹
Milwaukee	\$776
Syracuse	\$826
Chicago	\$841
St. Louis	\$845
Charlotte	\$856

¹Average annual prices were calculated by averaging the price of four scenarios for cellular use: low, medium, heavy and very heavy. Prices included monthly charges, an allowance for free air time, per-minute charges and one-time activation fees.

Source: The Yankee Group

lar industry nationally.

Cellular One this week announced modest price cuts to entice customers to switch to its digital network. Sue Swenson, president of Cellular One, said the cuts could set off a genuine price war with rival GTE Mobilnet.

GTE Mobilnet has been offering additional free minutes of calling for two months. But Ben Kahrnoff, vice president and general manager of GTE Mobilnet, said deep price cuts are not imminent.

"We intend to remain competitive, but we have an investment of \$200 million to \$300 million we need to recoup," he said.

Consumer groups contend that cellular rates could be reduced by at least 25 percent through regulations that provide cellular operators with a reasonable profit margin on top of their costs. Thomas Long, an attorney with TURN, a San Francisco watchdog group, criticized the PUC for not taking action.

The PUC, while seeking to preserve the right to regulate, has so far employed a light touch, preferring to wait until new providers bring about true competition.

Nextel Communications has begun to offer cellular-like service in Los Angeles and the Bay Area. In December, the FCC is scheduled to auction off new licenses for wireless communication, but those networks are not expected to be completed until at least 1997.

"The commission, to be honest, is not really doing anything to bring rates down at this time," said Joseph DeUlloa, legal adviser to PUC President Daniel Fessler. "We've accepted the industry's promise that competition would bring rates down. We've been waiting and it has not happened. The greatest protection we offer Californians is that rates are not any higher."

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Investigation on the Commission's)
Own Motion into Mobile Telephone) I.93-12-007
Service and Wireless Communications.) (Filed December 17, 1993)
_____)

**OPENING COMMENTS OF
BAY AREA CELLULAR TELEPHONE COMPANY (U-3007-C)**

**BAY AREA CELLULAR TELEPHONE
COMPANY**

**Adam A. Andersen
Senior Counsel**

**651 Gateway Blvd., Suite 1500
South San Francisco, CA 94080
Telephone: (415) 244-5656**

GRAHAM & JAMES

**Martin A. Mattes
Melissa S. Waksman**

**One Maritime Plaza, Suite 300
San Francisco, CA 94111
Telephone: (415) 954-0200**

**Attorneys for BAY AREA
CELLULAR TELEPHONE COMPANY**

February 25, 1994

TABLE OF CONTENTS

	<u>Page</u>
I. THE OII'S DUOPOLY MODEL OF THE CELLULAR SERVICES MARKET DOES NOT ACCURATELY REFLECT THE DYNAMIC AND CHALLENGING NATURE OF THE MARKET FOR MOBILE COMMUNICATION SERVICES .	2
II. FROM ITS FIRST MONTHS OF OPERATIONS TO THE PRESENT DAY, BACTC HAS BEEN OBLIGED TO MAKE INCREASING INVESTMENTS IN NETWORK PLANT TO MEET UNEXPECTEDLY HIGH DEMAND FOR SERVICE	4
A. BACTC's Sales Volumes Have Substantially Exceeded Expectations	5
B. BACTC Has Made Substantial Investments in Cell Sites and Switching Offices to Meet the Demand for Service and to Enhance the Quality of the Service Provided	7
III. BACTC HAS EXPANDED THE RANGE OF ITS SERVICE OFFERINGS, ENHANCING CUSTOMER CHOICE AND REDUCING THE AVERAGE COST OF CELLULAR SERVICE	9
A. Competition Among Cellular Service Providers in the San Francisco Region Has Emphasized Differentiation of Products and Discounts for High-Volume Customers	9
1. Large Organization Plan	11
2. Emergency Plan	11
3. Rate Reductions Under the Basic Plan	12
4. Executive Plan	12
5. Enable-Link SM	12
6. Security Plan, Occasional Plan, Standard Plan, Value Plan-Analog, Advantage Plan-Analog, and Premium Plan-Analog	13
7. Value Plan-TDMA-Dual Mode, Advantage Plan-TDMA-Dual Mode, and Premium Plan-TDMA-Dual Mode	14
B. The Average Price of BACTC's Cellular Service Has Declined Substantially Since 1986	17

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
IV. BACTC CONTINUES TO ENHANCE THE QUALITY OF ITS CELLULAR SERVICE THROUGH DEPLOYMENT OF ADVANCED TECHNOLOGY . . .	18
A. BACTC Has Consistently Achieved and Maintained High Levels of Service Quality and Customer Satisfaction	18
B. BACTC Has Introduced Numerous Innovations Which Have Enhanced the Value of Its Cellular Service or Made Added Service Options Available to Its Subscribers	19
C. BACTC Is the First Cellular Carrier in California to Deploy Digital Service on a Commercial Basis . .	20
V. CONCLUSION	21

TABLE OF AUTHORITIES

Page

CALIFORNIA PUBLIC UTILITIES COMMISSION DECISIONS:

Mobile Telephone Service and Wireless Communications, I.93-12-007, adopted December 17, 1993 passim

Practices, Operations and Conduct of All Facilities-Based Cellular Carriers in Connection with Their Siting of Towers, I.92-01-002, adopted January 10, 1992 19

Regulation of Cellular Radiotelephone Utilities, D.90-06-025, 36 Cal. P.U.C. 2d 464, 495 (1990) 3, 5, 10

Regulation of Cellular Radiotelephone Utilities, D.93-04-058, adopted April 21, 1993 15, 16

MISCELLANEOUS:

General Order No. 159 19

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Investigation on the Commission's)
Own Motion into Mobile Telephone) I.93-12-007
Service and Wireless Communications.) (Filed December 17, 1993)
_____)

**OPENING COMMENTS OF
BAY AREA CELLULAR TELEPHONE COMPANY (U-3007-C)**

Pursuant to Ordering Paragraph 5 of the Commission's Order Instituting Investigation ("OII") adopted December 17, 1993, and the subsequent ruling of Administrative Law Judge Pulsifer, issued January 28, 1994, Bay Area Cellular Telephone Company ("BACTC") hereby submits its opening comments in response to the OII.

BACTC is a partnership which holds authority from this Commission and from the Federal Communications Commission to provide cellular radiotelephone service in the San Francisco and San Jose metropolitan areas. Controlling interests in BACTC are held indirectly by Air Touch Communications ("Air Touch") and McCaw Cellular Communications, Inc. ("McCaw"). Accordingly, BACTC relies upon and supports the opening comments being filed concurrently in this proceeding by Air Touch and McCaw as those comments respond to the specific questions presented in Appendix A to the OII, and does not wish to burden the record by a duplicative presentation. Instead, BACTC offers in these opening comments an account of its own experience in its first eight years of furnishing cellular service to its subscribers, along with an explanation of how that experience bears upon some of the key issues presented for comment by the OII.

I. THE OII'S DUOPOLY MODEL OF THE CELLULAR SERVICES MARKET DOES NOT ACCURATELY REFLECT THE DYNAMIC AND CHALLENGING NATURE OF THE MARKET FOR MOBILE COMMUNICATION SERVICES.

BACTC welcomes the Commission's proposal of a regulatory program that encompasses all forms of mobile telephone service and that will subsume the regulation of cellular carriers within that comprehensive framework. OII, at 2. However, BACTC questions the fundamental premise of the proposed regulatory program that a dominant/nondominant carrier model, founded on close, cost-based rate regulation of what are termed "cellular duopolists" and very light regulation of their current and future competitors, is suitable for the mobile telecommunications market. Id. at 2-3, 15-17.

The Commission presents its objective as being "to promote an environment in which Californians receive high quality and reasonably-priced mobile telephone services [that] meet the individual needs of personal and commercial consumers in the State in a fair and efficient manner." Id. at 14. The Commission expresses concern that "the placement of control of radio spectrum in the hands of just two facilities based cellular providers per geographic market . . . constrains the competitive vitality of the market." Id. at 15.

While the Commission repeatedly alludes to and welcomes the prospects for entry of "new and innovative mobile service providers" into the California market (see, e.g., id. at 16, 24), the OII takes an essentially static view of the market for mobile services as one of "constrained vitality," requiring such drastic

measures as cost-of-service rate regulation and unbundling of the radio transmission function in order to protect the public and promote competition. BACTC must respectfully object to this view of the mobile services market as seriously short-sighted.

Cellular radiotelephone services have been offered for public use in the State of California for fewer than ten years. They have been available in the San Francisco Bay area for nearly nine years. BACTC has operated as a cellular carrier for seven years and five months. While recognizing the prospects for deployment of specialized mobile radio ("SMR") providers and personal communications systems ("PCS") as serious competitors with cellular in the very near future, BACTC must stake its own claim to being a "new and innovative mobile service provider."

Contrary to the view, implicit in the OII, of the cellular carrier as a fat and happy "duopolist," relying on its control over bottleneck facilities to extract excessive profits from victimized consumers, an objective inquiry will show that the market for mobile telecommunications services has been extremely dynamic and challenging, especially since the Phase II Cellular OII decision (D.90-06-025) gave cellular carriers increased flexibility to introduce optional rate plans. BACTC and several other cellular carriers have been successful, but their success has resulted from strenuous and dedicated efforts to deploy innovative and attractive services to meet unexpectedly high demand.

With rapid growth in its customer base, BACTC has reinvested large portions of its earnings to support the rapid

deployment of additional facilities and innovative technology to supply rapidly increasing volumes of cellular service. Despite the constraints imposed by current regulatory processes, BACTC has expanded its service offerings with numerous promotional offers and alternative service plans, each of which is designed to offer reduced rates to a particular target group of subscribers. The overall result of these innovative service offerings has been a slight reduction in the average total price per minute of BACTC's services, but a very substantial reduction in BACTC's average monthly bill. In the face of continuing inflation in the costs of goods and services, BACTC's average revenue per subscriber has declined since 1990 by more than \$35 per month -- a reduction of over 30 percent in three years. Meanwhile, to meet increasing demand with limited transmission sites and also to anticipate the offering of new services by current and future competitors, BACTC has been the first cellular carrier in California to offer digital cellular service on a commercial basis.

II. FROM ITS FIRST MONTHS OF OPERATIONS TO THE PRESENT DAY, BACTC HAS BEEN OBLIGED TO MAKE INCREASING INVESTMENTS IN NETWORK PLANT TO MEET UNEXPECTEDLY HIGH DEMAND FOR SERVICE.

In the Phase II Decision in the Cellular OII, the Commission expressed concern that wholesale carriers might pursue strategies to maximize short-term profits by operating below the limits of capacity or not expanding system capacity where feasible and economic. Regulation of Cellular Radiotelephone Utilities, D.90-06-025 ("Phase II Cellular OII Decision"), at 59 (mimeo), 36 Cal. P.U.C. 2d 464, 495 (1990). It was for this reason that the

Commission envisioned a program for monitoring cellular capacity utilization and expansion. Id. at 60, 112 (Ordering Paragraph 23.d), 36 Cal. P.U.C. 2d at 495, 518. BACTC's experience, especially since the 1990 decision, should amply demonstrate that, at least in the San Francisco Bay Area, there need be no concern about cellular carriers failing to make the requisite investments to meet the demand for their services.

A. BACTC's Sales Volumes Have Substantially Exceeded Expectations.

It has often been mentioned that when Charlie Brown of AT&T and William Baxter of the Department of Justice met the press in January 1982, to announce the settlement that led to the AT&T divestiture, neither had a ready response to a question about which companies would inherit AT&T's licenses and technology for cellular service, because neither considered the yet-to-be-deployed cellular service important enough to worry about. Indeed, early expectations were that cellular technology would offer a major enhancement to traditional mobile radio services, but would only gradually attract new users to mobile telecommunications. These expectations proved far too modest.

As for many other cellular carriers, BACTC's early experience was a race to deploy system capacity adequate to meet a demand for service which far exceeded those modest initial expectations. After just three years of system operations, BACTC was furnishing retail service to over 64,000 subscribers. In each year since 1989, the number of BACTC's customers has increased by

at least 24 percent per year, with increases in the last several years exceeding 30 percent each year.

There have been significant changes in the composition of BACTC's retail customer base over the years. BACTC's early subscribers were trend-setters with high disposable income and/or unusually frequent need for mobile telecommunications. As a consequence, in the first years of BACTC's operations, which were also, significantly, boom years of prosperity for California's economy, the typical subscriber's monthly bill and monthly usage were quite high. In more recent years, as California's economy has been mired in recession, both new subscribers and established customers have been more sparing in their use of BACTC's service. Many have had different reasons for subscribing to cellular service than the "pioneers," often choosing cellular for security or communications with family members or other purposes that make it less likely that they will use the service frequently. Also, new service options for light users and other special classes of customer have tended to attract subscribers whose average usage will not be high.

Despite these trends that tend to reduce the average usage per customer, the overall use of BACTC's network has continued to grow at a rapid pace. Thus, from the year 1989 to the year 1993, the service demand placed on BACTC's system by its customer base increased from 4 million erlangs to 17 million erlangs, a growth in this key measure of system demand of 325 percent over a four-year period.

900 The steady and continuing growth in demand for BACTC's service, as measured either by the number of subscribers or the volume of air-time usage, supports the conclusion that the pricing of BACTC's services is consistent with the value of those service. Because BACTC has been devoting great efforts and a high proportion of its net income to expanding its system capacity to keep pace with this increasing demand, there is no basis for concluding that BACTC has priced its services inefficiently.

B. **BACTC Has Made Substantial Investments in Cell Sites and Switching Offices to Meet the Demand for Service and to Enhance the Quality of the Service Provided.**

The capital investments required to bring BACTC on line as a cellular carrier and to expand system facilities to meet the unexpectedly rapid growth in demand for cellular service have been substantial. BACTC invested nearly \$30 million to construct and activate its original system, which began offering service in September 1986, through one Mobile Telecommunications Switching Office ("MTSO") and sixteen cell sites. Understandably, plant investments were substantially lower in 1987, when capital expenditures totaled just over \$11 million, mainly to construct new cell sites to extend and enhance the quality of cellular transmission service. However, the rapid and steady growth in the demand for BACTC's service, at both wholesale and retail levels, accompanied by high customer expectations regarding the quality and reliability of cellular transmissions, has required BACTC to increase the amount of its capital investments in every year but

one since 1987, in order to provide the coverage, capacity, and service quality that customers demand.

Since coming on line in 1986 with sixteen cell sites connected with one MTSO, BACTC's transmission system has expanded to the point that, in early 1994, it includes three MTSOs and over 180 active cell sites. Many cell sites have been subject to enhancement through installation of additional antennas and other equipment. As the choicest cell sites have been placed into service, the ratio of capital costs to system benefits from installing additional sites, however necessary, tends to decline.

Recently, BACTC's capital requirements have also been affected by the project of converting its system to digital service, which was introduced as a service option in October 1993, in order to enhance transmission quality, increase network capacity, and open the technological gateway to a broad range of new features and services. BACTC has initially deployed digital cellular service throughout San Francisco and along major highway corridors around the Bay Area, where usage is high and capacity under the analog system would soon have been constrained. Substantial continuing investments will be required for BACTC to complete the deployment of digital service and to perform further upgrades to its network as future developments in technology and the competitive market require.

As a result of these several factors, capital investment requirements in recent years have been at the highest level BACTC has ever experienced. During its eight years of operations, BACTC has invested over \$200 million in capital projects, net of accrued

depreciation, with ever increasing capital expenditures in recent years. BACTC has consistently plowed more than 50 percent of its pre-tax net income back into capital investments in the expansion of its network capacity to serve increasing customer demand.

The results of BACTC's major investments in system expansion are portrayed in Attachment A to these comments, which presents a series of maps of BACTC's service area showing the distribution of cell sites constructed in each year from 1986 through 1994. The enormous increase in cell site density that has occurred is graphically evident in the progress of these maps from year to year. The numbers are just as impressive: For example, from January 1, 1990, through January 1, 1994, the number of BACTC cell sites nearly tripled -- from 64 to 183. Not only has the increase in cell sites and switching facilities greatly expanded BACTC's transmission capacity, it also has expanded the area of BACTC's service coverage -- from approximately 1900 square miles in 1986 to over 3200 square miles at the end of 1993.

III. BACTC HAS EXPANDED THE RANGE OF ITS SERVICE OFFERINGS, ENHANCING CUSTOMER CHOICE AND REDUCING THE AVERAGE COST OF CELLULAR SERVICE.

A. Competition Among Cellular Service Providers in the San Francisco Region Has Emphasized Differentiation of Products and Discounts for High-Volume Customers.

In the Phase II Cellular OII Decision, the Commission concluded that the duopoly market structure of the cellular industry "does not necessarily foreclose sufficient competitiveness to maintain fair and efficient pricing of cellular services," but expressed concern about whether its regulatory

policies promoted the necessary competitiveness among carriers and resellers. Phase II Cellular OII Decision, at 49-50 (mimeo), 36 Cal. P.U.C. 2d at 490-91. The Commission concluded that the advice letter process should be modified to make it more responsive to competitive market conditions, to allow expedited effectiveness of relatively small rate changes. Id. at 52-53 (mimeo), 36 Cal. P.U.C. 2d at 492.

There have been significant issues and problems concerning the implementation of greater rate flexibility pursuant to the Phase II Cellular OII Decision, especially in connection with defining the terms and limitations for the use of temporary tariff authority. However, BACTC's own experience offers convincing evidence that the 1990 decision has led to the offering of a great number of innovative rate plans, providing much greater choice of service arrangements for BACTC subscribers and, in many cases, opportunities for substantial reductions in average per-minute charges and in total monthly bills. BACTC sincerely believes that these developments demonstrate that the surest means for achieving effective rate competition between cellular carriers and among the those carriers and other providers of wireless services is to relax regulatory constraints, such as the still cumbersome advice letter process, rather than to add the even more burdensome constraints of cost-based ratemaking procedures.

Since 1990, the number of alternative service plans BACTC has offered as variations on its Basic Rate Plan has increased from just two to fifteen distinct plans as of the present date. A brief survey of these innovative rate plans, each

of which has offered rates for a target class of customers, should persuade the Commission that the allowance of even a severely constrained form of rate flexibility has produced real reductions in rates:

1. Large Organization Plan

BACTC's Large Organization Plan, filed February 23, 1991, under temporary tariff authority and effective the following day, provides discounts from Basic Plan access charges and usage rates to groups or organizations that subscribe to at least 50 access numbers. The magnitude of the discounts increases as the customer's monthly total of access charges and usage rates increases. Since March 1992, available discounts (depending on monthly totals) range from 12 percent to 19 percent, and since October 1993, the service establishment fee has been eliminated. The plan requires a one year commitment.

2. Emergency Plan

The Emergency Plan, also filed as a temporary tariff February 21, 1991, and effective the next day, offers government entities discounted service in order to allow such entities to have cellular service available during emergency situations when such service is of critical importance to emergency response efforts. Under the Emergency Plan, the yearly access charge is 63 percent lower than under the Basic Plan, and that charge includes five free minutes per month to allow for monthly testing. The usage rates under the Emergency Plan are priced so as to provide a 20 percent discount after the first two hours of usage

per month. Discounts also are provided for custom calling features.

3. Rate Reductions Under the Basic Plan

Effective April 16, 1991, BACTC changed its Basic Rate Plan to provide variable monthly access charges which offer discounts sensitive to the customer's usage volume. More recently, BACTC was the first cellular carrier to take advantage of the Rate Band Pricing Guidelines, approved by the Commission on April 21, 1993, to effect an across-the-board reduction in the monthly access charge under the Basic Rate Plan from \$45.00 to \$39.99, an 11 percent discount, effective April 26, 1993.

4. Executive Plan

To optimize convenience for business users, this plan was introduced in April 1991, offering a monthly access rate including 400 minutes of usage, effectively providing a discount from the Basic Plan's usage and monthly access charges. The rates for usage beyond the 400 minutes of included time are set to provide a discount at peak time, but a slightly higher rate for off-peak usage, thereby tailoring the discounts to the business user's schedule.

5. Enable-LinkSM

In order to make cellular service economically accessible to physically disabled customers -- particularly the mobility or vision impaired -- for whom such service could constitute an importance convenience, BACTC introduced the Enable-

Link plan. This plan, available only to individuals meeting certain disability criteria, offers a monthly access charge discounted approximately 75 to 80 percent and a 40 percent discounted activation charge. Its usage rates are higher than those under the Basic Plan, but this is consistent with the low usage anticipated for subscribers to this service option. BACTC was the first cellular carrier in California to offer a service plan geared to the needs of the physically disabled.

6. Security Plan, Occasional Plan, Standard Plan, Value Plan-Analog, Advantage Plan-Analog, and Premium Plan-Analog

In April 1993, again pursuant to temporary tariff authority, BACTC introduced six "package plans," each of which is specially designed to meet particular customer needs.

The Security Plan is designed to provide cellular service at a total price that is discounted from Basic Plan rates for the customer who primarily desires such service primarily for personal security reasons. This plan discounted the monthly access charge by 34 percent, with an increased charge for peak period usage but no change in the off-peak usage rate.

The Occasional Plan, similarly, is fashioned to provide cellular service at a total cost that is discounted from the Basic Plan rates for the user who expects to make light but regular use of a cellular phone. This plan bundles 30 minutes of air-time into a slightly increased monthly charge, offering a discount of up to 10 percent on the total bill. The Standard Plan is a variation on the Occasional Plan, bundling a larger usage volume

(110 minutes) into a higher monthly charge and with a slight discount for usage beyond the basic allowance. It is designed for a subscriber who expects to make more frequent use of cellular service, with a maximum discount of approximately 8.5 percent.

The Value Plan, the Advantage Plan, and the Premium Plan are further variations on the Standard Plan, each bundling a successively larger air-time allowance into a successively higher flat monthly charge and with a successively more favorable discount on usage beyond the bundled amount. Thus, the Premium Plan, bundling 435 minutes of usage into a monthly charge of \$199.99 with a peak air-time rate of \$0.38 per minute, offers a discount of up to 10 percent as compared to the Basic Plan for subscribers using over 435 minutes of cellular service per month. Each of these plans is tailored to provide a service advantageously priced for customers at a particular usage level. These several plans, when considered together, provide BACTC's customers the opportunity to select a plan that is best suited to their personal usage patterns, thereby allowing the customer to obtain cellular service at an optimal price.

For each of these plans, BACTC ran, for a limited time, promotional offers that allowed for free off-peak usage after hitting a specified total usage amount. All of these plans require a one-year commitment.

7. Value Plan-TDMA-Dual Mode, Advantage Plan-TDMA-Dual Mode, and Premium Plan-TDMA-Dual Mode

In October 1993, BACTC began offering its Value Plan, Advantage Plan, and Premium Plan for customers with digital

equipment at usage and monthly access rates lower than those offered to customers with the comparable analog service. The maximum discounts available under these plans, as compared to the Basic Plan, range from 11.5 to 17.0 percent. Under these digital service plans, all terms other than the monthly access and usage rates are the same as those offered to under the comparable analog plans. BACTC also ran the same promotional offer of free off-peak air-time for the digital plans as it had previously made available for the analog plans.

BACTC was able to offer these digital plans because it was concurrently implementing digital service on portions of its network and the provision of service on a digital basis makes more efficient use of BACTC's transmission capacity. This discount service offer also was justified by the need to overcome customers' anticipated reluctance to invest in more expensive digital cellular handsets. Another factor enabling BACTC to experiment with the deeper discounts allowed under these plans was that they were offered pursuant to the Rate Band Pricing Guidelines, adopted by the Commission in April 1993, which offer carriers the opportunity to increase rates they have previously reduced and thereby mitigate an important disincentive to rate competition -- the difficulty of undoing a rate reduction should it prove uneconomic. See, Regulation of Cellular Radiotelephone Utilities, D.93-04-058, adopted April 21, 1993, App. A.

Thus, over the past several years, BACTC's implementation of the limited rate flexibility allowed to it by

the Phase II Cellular OII Decision has evolved from efforts to enhance the attractiveness of its service for the highly competitive high-volume and government agency sectors, toward the development of a broad range of diversified service plans aimed to meet the particular needs of customers with various configurations of typical usage. This marketing strategy has been effective, as evidenced by the fact that the proportion of BACTC subscribers taking service under its Basic Plan has declined from 79 percent at the end of 1990 to just 41 percent at the close of 1993. Meanwhile, BACTC's average revenue per customer has fallen over the same time-frame by over 30 percent per month. Id.

As these figures should amply demonstrate, BACTC has not introduced its many optional service plans as mere window-dressing to impress the Commission with its intent to compete. To the contrary, the development of these plans is BACTC's implementation of a market-driven strategy for defending its share of the original base of high-volume cellular customers, aggressively competing for comparable customers of its wireline carrier competitor, and seeking to open up new market sectors among occasional or emergency users, the security conscious, and the disabled. Nor is it merely coincidental that several of BACTC's innovative service plans feature a public service aspect, in the not entirely unselfish effort to demonstrate that cellular service can help public institutions and private individuals to overcome social problems and personal disabilities.

BACTC is a market-driven company, not a creature of regulation. It competes for new business and to retain existing