

MAY 25 10 40 AM '95

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

DISC

In the Matter of)	
)	
Petition of the State of Ohio for Authority)	PR Docket No. 94-109
To Continue To Regulate Commercial Mobile)	
Radio Services)	

REPORT AND ORDER

Adopted: May 4, 1995;

Released: May 19, 1995

By the Commission:

I. INTRODUCTION

1. On August 9, 1994, the Public Utilities Commission of Ohio (hereinafter "Ohio" or "OPUC"), on behalf of that state, petitioned us to retain state regulatory authority over the rates for intrastate commercial mobile radio services ("CMRS").¹ By this action, we deny the petition because it fails to satisfy the statutory standard Congress established for extending state regulatory authority over CMRS rates.

II. BACKGROUND

2. In 1993, Congress amended the Communications Act ("Act") to revise fundamentally the statutory system of licensing and regulating wireless (*i.e.*, radio)

¹ Ohio, Statement of the Public Utilities Commission of Ohio's Intention To Preserve its Right for Future Rate and Market Entry Regulation of Commercial Mobile Services, at 1 (Aug. 9, 1994) (hereinafter "Ohio Petition"). A list of parties that filed pleadings in this proceeding appears at Appendix A.

telecommunications services.² Among other things, Congress: (1) established new classifications of “commercial” and “private” mobile radio services (“CMRS” and “PMRS,” respectively) in order to enable similar wireless services to be regulated symmetrically in ways that promote marketplace competition;³ (2) reallocated up to 200 megahertz of spectrum from government to private use so as to expand opportunities for innovative utilization of spectrum by the private sector;⁴ and (3) authorized competitive bidding as a means of improving licensing efficiency within the context of the Act’s public interest goals, which include promoting investment in new and innovative wireless telecommunications technologies.⁵

3. Congress also provided that, as of August 10, 1994, no state or local government shall have authority to regulate “the entry of or the rates charged” for CMRS and PMRS services, although states are permitted to regulate the “other terms and conditions” of CMRS.⁶ As an exception to this general rule, Congress also provided that, if a State had “any regulation” concerning the rates for any commercial mobile radio service in effect as of June 1, 1993, it could retain its rate regulation authority by petitioning the Commission no later than August 9, 1994, and demonstrating that either: (1) “market conditions with respect to such services fail to protect subscribers adequately from unjust and unreasonable rates or rates that are unjustly or unreasonably discriminatory;” or (2) “such market conditions exist and such service is a replacement for land line telephone exchange service for a substantial portion of the telephone land line exchange service within such State.”⁷

4. In our proceeding to implement OBRA, we concluded that, since Congress intended generally to preempt state and local rate and entry regulation of CMRS, a state seeking to retain regulatory authority must “clear substantial hurdles” in demonstrating that

² See Omnibus Budget Reconciliation Act of 1993, Pub. L. No. 103-66, Title VI, § 6002 (“OBRA” or “Budget Act”), *codified in principal part at 47 U.S.C. § 332.*

³ See Implementation of Sections 3(n) and 332 of the Communications Act, Regulatory Treatment of Mobile Services, Second Report and Order, 9 FCC Rcd 1411, 1417-18 (1994) (*CMRS Second Report and Order*), *reconsideration pending.*

⁴ National Telecommunications and Information Administration Organization Act, § 113(b)(1).

⁵ The competitive bidding methodology is to promote “the development and rapid deployment of new technologies, products, and services for the benefit of the public, including those residing in rural areas, without administrative or judicial delays” 47 U.S.C. § 309(j)(3)(A). Regulations for the conduct of such auctions, when they prescribe area designations and bandwidth assignments, are required by OBRA to promote “investment in and rapid deployment of new technologies and services.” 47 U.S.C. § 309(j)(4)(C)(iii).

⁶ See 47 U.S.C. § 332(c)(3)(A).

⁷ See 47 U.S.C. § 332(c)(3)(B).

continued regulation is warranted.⁸ We also determined that the nature of a state's burden of proof is delineated generally by the statute itself. Specifically, we found that:⁹

[I]n implementing the preemption provisions of the new statute, we have provided that states must, consistent with the statute, clear substantial hurdles if they seek to continue or initiate rate regulation of CMRS providers. While we recognize that states have a legitimate interest in protecting the interests of telecommunications users in their jurisdictions, we also believe that competition is a strong protector of these interests and that state regulation in this context could inadvertently become as [*sic*] a burden to the development of this competition. Our preemption rules will help promote investment in the wireless infrastructure by preventing burdensome and unnecessary state regulatory practices that impede our Federal mandate for regulatory parity.

5. We also concluded that, while a state should have discretion to submit whatever evidence it believes is persuasive, a petition to retain regulatory authority must be grounded on demonstrable evidence.¹⁰ In that regard, we adopted Section 20.13 of our Rules as a guide to the kinds of evidence and information that we would consider to be pertinent and helpful to our consideration of a state petition.¹¹ Moreover, in addition to the evidence, information, and analysis that a state must submit, we determined that a petitioning state also is required to identify and provide a detailed description of the specific existing or proposed rules that it would continue or establish if we were to grant its petition.¹² We noted that the standards for preemption established in *Louisiana PSC* do not apply to petitions submitted under Section 332 of the Act, nor to Section 20.13 of our Rules.¹³ In *Louisiana PSC* the Supreme Court found that Section 2(b) of the Communications Act prohibits the Commission from exercising

⁸ See *CMRS Second Report and Order*, 9 FCC Rcd at 1504.

⁹ *Id.*, 9 FCC Rcd at 1421.

¹⁰ *Id.*, 9 FCC Rcd at 1504.

¹¹ 47 C.F.R. § 20.13.

¹² See *CMRS Second Report and Order*, 9 FCC Rcd at 1505.

¹³ Under *Louisiana PSC*, the Commission may preempt state regulation of intrastate service when it is not possible to separate the interstate and intrastate components of the asserted Commission regulation. *Louisiana Pub. Ser. Comm'n v. FCC*, 476 U.S. 355, 375 n.4 (1986). In construing the "inseparability doctrine" recognized by the Supreme Court in *Louisiana PSC*, Federal courts have held that where interstate services are jurisdictionally "mixed" with intrastate services and facilities otherwise regulated by the states, state regulation of the intrastate service that affects interstate service may be preempted where the state regulation thwarts or impedes a valid Federal policy. See *California v. FCC*, 905 F.2d 1217 (9th Cir. 1990); *Illinois Bell Tel. v. FCC*, 883 F.2d 104 (D.C. Cir. 1989); *National Ass'n of Reg. Util. Comm'ners v. FCC*, 880 F.2d 422 (D.C. Cir. 1989).

Federal jurisdiction with respect to “charges, classifications, practices, services, facilities, or regulations for or in connection with intrastate communications services.”¹⁴ Here, Congress has explicitly amended the Communications Act to preempt state and local rate and entry regulation of commercial mobile radio services without regard to Section 2(b).

III. DECISIONAL FRAMEWORK

6. In order to prevail on the merits, the OPUC must sustain its statutory burden of demonstrating that “market conditions with respect to [commercial mobile radio] services fail to protect subscribers adequately from unjust and unreasonable rates or rates that are unjustly or unreasonably discriminatory.”¹⁵ A question arises as to what showing is necessary to sustain this burden. Although we addressed this issue in the *CMRS Second Report and Order*, we revisit it in view of the parties’ debate in this record. As explained more fully below, we do not agree that our decision to forbear from regulating interstate CMRS under certain provisions of Title II makes it impossible to grant a state’s petition. At the same time, we conclude that a state must do more than merely show that market conditions for cellular service¹⁶ have been less than fully competitive in the past. In order to retain regulatory authority, a state must show that, given the rapidly evolving market structure in which mobile services are provided, the conduct and performance of CMRS providers ill-serve consumer interests by producing rates that are not just and reasonable, or are unreasonably discriminatory.

7. Since the Budget Act does not explicitly construe or elaborate on the phrase “market conditions ... fail to protect subscribers adequately from unjust and unreasonable rates or rates that are unjustly or unreasonably discriminatory,” we look to the “design of the statute as a whole and its object and policy” to give that phrase meaning.¹⁷ We begin that task by reference to other Sections of the Communications Act, such as Section 201, which also speak of just and reasonable rates.¹⁸ We have generally described the measure of reasonableness under these Sections in terms of rates that reflect or emulate competitive

¹⁴ *Louisiana PSC*, 476 U.S. at 373, quoting Communications Act, § 2(b), 47 U.S.C. § 152(b).

¹⁵ 47 U.S.C. § 332(c)(3).

¹⁶ Although the provisions of Section 332(c)(3) of the Act apply to rate or entry regulation in the case of any commercial mobile radio service provider, the OPUC Petition is oriented to the provision of cellular service.

¹⁷ See *Crandon v. United States*, 494 U.S. 152, 157 (1990); *McCarthy v. Bronson*, 500 U.S. 136, 139 (1991).

¹⁸ See 47 U.S.C. § 201; see also 47 U.S.C. §§ 623 (b)-(c) (provisions governing reasonableness of cable television rates).

market operations.¹⁹ The more formal description, however, is whether rates fall within a “zone of reasonableness” that is bounded at one end by the “investor interest in maintaining financial integrity and access to capital markets” and at the other by the “consumer interest in being charged non-exploitative rates.”²⁰ Regardless of how the test is characterized, it is well established that determinations whether rates fall within this zone are not dictated by reference to carriers’ costs and earnings,²¹ but may take account of non-cost considerations such as whether rates further the public interest by tending to increase the supply of the item being produced and sold.²² These principles define basic components of a state’s demonstration under Section 332. Specifically, a state must show that market conditions fail to produce rates that fall within a “zone of reasonableness,” which is defined by reference to investor and consumer interests viewed in the context of relevant public policy considerations.

¹⁹ See Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, 4 FCC Rcd 2873, 2886, 2889-2900 (1989); see also Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992: Rate Regulation, MM Docket Nos. 92-266 & 93-215, FCC 94-286, released Nov. 18, 1994, at paras. 24, 34-37, 64-79.

²⁰ See, e.g., FERC v. Pennzoil Producing, 439 U.S. 508, 517 (1979); AT&T v. FCC, 836 F.2d 1386, 1390 (D.C. Cir. 1988); see also FPC v. Hope Natural Gas, 320 U.S. 591, 602 (1944); Duquesne Light Co. v. Barasch, 488 U.S. 299, 308 (1989).

²¹ See FERC v. Pennzoil Producing, 439 U.S. 508, 517 (1979) (the zone of reasonableness is not defined by a “rigidly . . . cost-based determination of rates, much less . . . one that bases each [carrier’s] rates on its own costs.”) (citation omitted); see also Permian Basin Area Rate Cases, 390 U.S. 747, 769, 797-98, 800-05, *reh’g denied*, Bass v. FPC, 392 U.S. 917 (1968) (upholding ratemaking based upon area-wide average costs).

²² See, e.g., Mobil Oil Corp. v. FPC, 417 U.S. 283 (1974), in which the Supreme Court upheld a Federal Power Commission incentive plan that permitted an increase in rates in order to encourage increased production. In doing so, the Court emphasized that it was permissible for the agency to consider non-cost factors:

Mobil’s argument assumes that there is only one just and reasonable rate possible for each vintage of gas, and that this rate must be based entirely on some concept of cost plus a reasonable rate of return. We rejected this argument in *Permian Basin* and we reject it again here. The Commission explicitly based its additional “non-cost” incentives on the evidence of a need for increased supplies.

Id. at 316. See also Farmers Union Cent. Exch. v. FERC, 734 F.2d 1486, 1502-03 (D.C. Cir), *cert. denied*, 469 U.S. 1034 (1984) (acknowledging agency authority to consider non-cost factors in establishing just and reasonable rates); Public Service Comm’n of New York v. FERC, 589 F.2d 542, 559 (D.C. Cir. 1978) (stating that agencies have authority to adopt incentive-based regulatory approaches in order to serve the public interest).

8. We also consider the meaning of the relevant language in the statute in the context of the overarching command of Section 332(c)(3), which is: “no State ... shall have any authority to regulate” CMRS rates.²³ As we concluded in the *CMRS Second Report and Order*, that provision, as well as the title of Section 332(c)(3) (“State Preemption”), express an unambiguous congressional intent to foreclose state regulation in the first instance.²⁴ Moreover, OBRA reflects a general preference in favor of reliance on market forces rather than regulation. Section 332(c), for example, empowers the Commission to reduce CMRS regulation,²⁵ and it places on us the burden of demonstrating that continued regulation will promote competitive market conditions.²⁶

9. Unlike some of the opponents of the OPUC Petition, we do not view the statutory preference for market forces rather than regulation in absolute terms. If Congress had desired to foreclose state and Federal regulation of CMRS entirely, it could have done so easily. It chose instead to delineate the circumstances in which such regulation might be applied. Tellingly, it did so in the context of a broad statutory framework with several other principal components. Under the OBRA: (1) substantial amounts of spectrum reserved for Federal government use are to be identified and transferred to commercial and public safety uses;²⁷ (2) this and other available spectrum, if allocated to commercial telecommunications uses, are to be licensed “rapidly” through the use of competitive bidding systems to promote the development and deployment of new technologies, products, and services, with the goal of stimulating economic opportunity and competition;²⁸ and (3) in contemplation of the deployment of spectrum to commercial wireless services, and to promote regulatory parity, Congress also articulated definitional criteria for determining common carrier status consistently so success in the marketplace will not be determined by regulatory strategies but by technological innovation, service quality, competition-based pricing decisions, and responsiveness to consumer needs.²⁹

10. Viewing all three components together, the statutory plan is clear. Congress envisioned an economically vibrant and competitive market for CMRS services. It understood

²³ 47 U.S.C. § 332(c)(3).

²⁴ *CMRS Second Report and Order*, 9 FCC Rcd at 1504.

²⁵ 47 U.S.C. § 332(c)(1)(A).

²⁶ 47 U.S.C. § 332(c)(1)(C).

²⁷ OBRA § 6001, amending the National Telecommunications and Information Administration Organization Act.

²⁸ See OBRA § 6002(a), amending Section 309 of the Communications Act.

²⁹ See 47 U.S.C. § 332(d)(1); *CMRS Second Report and Order*, 9 FCC Rcd at 1420.

that such a market was still evolving,³⁰ and it provided the resources (*e.g.*, additional spectrum) and administrative authority (*e.g.*, licensing through competitive bidding) to accelerate that process. Finally, Congress delineated its preference for allowing this emerging market to develop subject to only as much regulation for which the Commission and the states could demonstrate a clear-cut need. The public interest goal of this Congressional plan is readily discernable. Congress intended to promote rapid deployment of a wireless telecommunications infrastructure. Robust investment is a prerequisite to achieving that goal.³¹ Thus, in implementing the statute, we have attempted to facilitate the achievement of this goal by ensuring that regulation creates positive incentives for efficient investment -- rather than burdening entrepreneurial activities -- and by establishing a stable, predictable regulatory environment that facilitates prudent business planning.³²

11. We emphasize the important impact on our decisionmaking of these fundamental elements of the OBRA statutory framework, which have no counterparts in other sections of the Communications Act. They are devoted exclusively to wireless telecommunications services, and to CMRS in particular. Our analysis of "market conditions" in the context of Section 332(c)(3) necessarily is governed by that framework.

12. Section 332(c)(3) must be interpreted in this context; it is an exception to the general prohibition against state regulation. We conclude that Ohio or any other state, should not be allowed to continue regulating CMRS overall, or cellular service in particular, merely by demonstrating that the market for cellular service has been less than fully competitive. Such a standard would effectively allow an exception permitting regulation to nullify a general prohibition against it, because it is commonly understood that such conditions have in

³⁰ The Commission's effort to establish new personal communications services (PCS) was initiated in 1989, four years prior to enactment of OBRA, in response to several petitions for rulemaking. During that period we established a formal proceeding to consider PCS issues and adopted major policy decisions that resulted in an allocation to PCS of far more spectrum than is allocated to cellular service. *See* Notice of Inquiry, GEN Docket No. 90-314, 5 FCC Rcd 3995 (1990); Policy Statement and Order, 6 FCC Rcd 6601 (1991); Notice of Proposed Rulemaking and Tentative Decision, 7 FCC Rcd 5676 (1992); Tentative Decision and Memorandum Opinion and Order, 7 FCC Rcd 7794 (1992); Second Report and Order, 8 FCC Rcd 7700 (1993); Memorandum Opinion and Order, 9 FCC Rcd 4957(1994); Third Memorandum Opinion and Order, 9 FCC Rcd 6908 (1994). We also made recommendations and participated, on behalf of the United States Government, in international allocations decision making fora that recognized and permitted the use of such spectrum for PCS and other emerging technologies on a global scale. *See* Report, GEN Docket No. 89-554, 6 FCC Rcd 3900 (1992). Congress was well aware of such activities, as witnessed by the fact that the Budget Act commanded us to begin granting licenses for such new services no later than May 1994. *See* OBRA § 6002(d)(2)(B).

³¹ *See* CMRS Second Report and Order, 9 FCC Rcd at 1421; *see also* 47 U.S.C. §§ 309(j)(4)(B), 309(j)(4)(c)(iii); OBRA Conference Report at 483, 492-93.

³² *Id.*

the past adhered in the cellular marketplace. On numerous occasions since the Commission established the two-carrier cellular market structure in 1982, we have acknowledged that such a structure provided less than optimal competitive opportunities.³³ Other Federal agencies have taken similar positions.³⁴ One year prior to adoption of the Budget Act, the General Accounting Office (GAO) -- the investigatory arm of Congress -- examined the industry and reported that "[w]hile GAO found no evidence of anticompetitive or collusive behavior in the course of its work, the two-carrier (duopoly) market system that the FCC created may provide only limited competition in cellular telephone markets."³⁵ It strains credulity to assert that Congress was blind to these conditions in 1993 when it broadly prohibited state regulation of CMRS.³⁶ Thus, we reject a reading of the statute that allows continued rate regulation merely on a showing of duopoly conditions, because it is not plausible to conclude that Congress adopted a self-defeating statutory scheme.³⁷

13. It also is worth noting that this Agency's recognition of imperfect cellular market conditions has been matched by our commitment to rectify those conditions as quickly as possible by strengthening and expanding cellular competition rather than by resorting to heavy-handed regulation.³⁸ For example, we have attempted to heighten cellular competition

³³ See, e.g., Cellular Communications Systems, 86 FCC 2d 469, 474 (1981), *modified on reconsideration*, 89 FCC 2d 58, 71-74 (1982), *modified on further reconsideration*, 90 FCC 2d 571 (1982); Petitions for Rulemaking Concerning Proposed Changes to the Commission's Cellular Resale Policies, 6 FCC Rcd 1719, 1725 & n.67 (1991) (*Cellular Resale Order*).

³⁴ See Reply Comments of the United States Department of Justice, CC Docket No. 91-34, filed June 19, 1991, at 4-5 ("[T]here is insufficient evidence to warrant the conclusion that the cellular service market is in fact workably competitive. In each service area there is still a duopoly[.]"); Comment of the Staff of the Bureau of Economics of the Federal Trade Commission, CC Docket No. 91-34, filed July 31, 1991, at 7 ("[T]he staff disagrees with the tentative conclusion that cellular service is produced in a competitively structured market."), 10-12.

³⁵ United States General Accounting Office, "Telecommunications: Concerns About Competition in the Cellular Telephone Service Industry," GAO/RCED-92-220 (July 1992) (GAO Report).

³⁶ Cf. *Goodyear Atomic Corp. v. Miller*, 486 U.S. 174 (1988) (Court generally presumes Congress is knowledgeable about existing law pertinent to legislation it enacts); *accord Miles v. Apex Marine Corporation*, 489 U.S. 19 (1990); *Cannon v. Univ. of Chicago*, 441 U.S. 677 (1979); *Minneapolis & St. Louis Railway Co. v. United States*, 361 U.S. 173 (1959).

³⁷ Cf. *McNary v. Haitian Refugee Center*, 498 U.S. 479 (1991) (Court generally presumes Congress legislates with knowledge of basic rules of statutory construction).

³⁸ See, e.g., GAO Report at 3 (The "FCC is relying on the introduction of advanced personal communications services to bring competition to the cellular telephone marketplace."). The Commission policy of avoiding heavy-handed regulation of the cellular market while it was developing also has been determined reasonable in court. See *Cellnet Communication, Inc. v. FCC*, 965 F.2d 1106, 1112 (D.C. Cir 1992) (petitions for review of FCC order declining to initiate rate

at the retail level by prohibiting restrictions on the resale of cellular services, except in narrow circumstances where we determined that restrictions intensify competition between the two licensees in each local market.³⁹ We also have retooled policies initially tailored to promote competition in the wireline market upon determining that they were unlikely to have that effect in the unique setting of wireless telecommunications.⁴⁰ Most especially, we have chosen to address the structural infirmity of the cellular market by vastly expanding the amount of spectrum available for two-way wireless voice communications and other innovative wireless services and technologies.

14. The framework of our CMRS regulatory policy -- moderate regulation, symmetrical regulation of all services as appropriate, and a preference for curing market imperfections by lowering entry barriers in order to encourage competition rather than by regulating existing licensees -- aligns closely with the principal building blocks of OBRA. Indeed, that statute is in a very real sense a validation of our approach.⁴¹ As the legislative history of OBRA makes plain, Congress intended those building blocks to establish a *national* regulatory policy for CMRS,⁴² not a policy that is balkanized state-by-state.

15. That intention informs our review of petitions filed by states under Section 332(c)(3). Put simply, Congress intended such petitions to be evaluated in light of a general preference for allowing the policies embodied in OBRA to have an opportunity to work.

regulation of cellular denied because "the FCC could reasonably conclude, in light of the novelty of the service and the speed of technological change, to wait and see how the market evolved...").

³⁹ See *Cellular Resale Order*, 7 FCC Rcd at 4006-07. We have recently initiated a review of our resale policies to tailor them to conditions in an emerging wireless telecommunications market that has been expanded to include PCS. See *Equal Access and Interconnection Obligations Pertaining to Commercial Mobile Radio Services*, 9 FCC Rcd 5408 (1994) (*Notice of Proposed Rulemaking and Notice of Inquiry*), Second Notice of Proposed Rulemaking, FCC 95-149, released Apr. 20, 1995.

⁴⁰ *Bundling of Cellular Customer Premises Equipment and Cellular Service*, 7 FCC Rcd 4028 (1992).

⁴¹ If Congress had concluded our approach was deficient, or that we should travel in a different policy direction, it is reasonable to conclude that it would have directed us accordingly.

⁴² See Conference Report at 480-81, incorporating the findings set forth in the Senate Amendment, including the following:

[B]ecause commercial mobile services require a Federal license and the Federal Government is attempting to promote competition for such services, and because providers of such services do not exercise market power vis-a-vis telephone exchange service carriers and State regulation can be a barrier to the development of competition in this market, uniform national policy is necessary and in the public interest.

With regard to the statutory prohibition on state regulation in Section 332(c)(3) in particular, the legislative history leaves no room for doubt on this point by providing that:⁴³

[i]n reviewing [state] petitions . . . the Commission also should be mindful of the Committee's desire to give the policies embodie[d] in section 332(c) an adequate opportunity to yield the benefits of increased competition and subscriber choice anticipated by the Committee.

16. In deference to the states, with whom we have and will continue to share telecommunications jurisdiction under the dual regulatory system of the Communications Act, we have not presumed to establish a rigid blueprint for the demonstration required under Section 332(c)(3). Moreover, unlike many opponents of the petition before us, we do not agree that a state's burden is so great that it is impossible to carry. For example, our decision to forbear from most CMRS regulation is not dispositive of the question whether states may initiate or continue rate regulation of such services. We think it unlikely that Congress would have established two separate statutory procedures -- one to govern our forbearance, and another to govern states' petitions⁴⁴ -- if it intended our decisions under the former procedure to control automatically the outcomes under both of them. Instead, we conclude that the exemption in Section 332(c)(3) is designed to permit a state to demonstrate that market conditions in that state warrant a departure from national OBRA policies.

17. Such a demonstration begins but does not end with a showing of less than fully competitive market conditions. Almost all markets are imperfectly competitive,⁴⁵ and such conditions can produce good results for consumers.⁴⁶ In particular, as noted previously, Congress was aware of the duopoly cellular structure when it generally proscribed state regulation of CMRS. If a showing of less than perfect competition in the past could justify granting a state petition, regulation might be imposed in a great many circumstances. Nothing on this record convinces us that Congress intended that result.

⁴³ H.R. Rep. No. 103-111, 103d Cong., 1st Sess. at 261-62.

⁴⁴ See 47 U.S.C. §§ 332(c)(1) (forbearance) and 332(c)(3) (state petitions).

⁴⁵ In general, perfect competition can exist only where goods are homogeneous, and all buyers and sellers have full information and accept price as given (*i.e.*, they do not try to influence price). There are also certain necessary conditions regarding cost of production. See D. Carlton & J. Perloff, *MODERN INDUSTRIAL ORGANIZATION* 87 (1995). Under perfect competition, price equals marginal cost, which is the incremental cost of producing the last unit of a good. Such conditions are theoretical constructs.

⁴⁶ See, *e.g.*, W. Baumol, J. Panzar & R. Willig, *CONTESTABLE MARKETS AND THE THEORY OF INDUSTRY STRUCTURE* 15-46 (1982).

18. Instead, we believe that a state must establish the existence of an environment of unjust and unreasonable, or unreasonably discriminatory, rates, given the dynamic and evolving structure in which CMRS is provided. When we implemented the Section 332(c)(3) state petition process in the *CMRS Second Report and Order*, we adopted a rule designed to elicit the information needed to make such a showing. Such information permits us to perform a Structure-Conduct-Performance (“SCP”) analysis,⁴⁷ which is a standard paradigm of modern industrial organization analysis.⁴⁸ This paradigm, as applied to the mobile telecommunications industry, holds that market structure is impacted by basic conditions such as the number of licenses issued by the Commission and the state of technology. Conduct, in turn, depends on the structure of the market, *e.g.*, on the number of competitors, the cost structure, and the degree of integration with other wireless providers. Performance, in turn, depends on the conduct of providers and other industry participants with regard to activities such as pricing, inter-firm coordination, and technical standards. Such an analysis permits an evaluation of the degree of rivalry within a particular industry structure and allows us to determine whether and how consumer interests are being served by such activity.

19. Nothing in our rule governing the state petition process suggests that merely showing the existence of a cellular duopoly structure is enough to support a petition. In the first instance, the rule signals our insistence that a petition must be based on demonstrable evidence of anticompetitive activity, or unjust and unreasonable, or unreasonably discriminatory, rates. For example, in order to determine whether an anticompetitive environment presently exists within a state, we requested that a petitioning state produce “specific allegations of fact,” to be supported by a sworn affidavit of an individual with personal knowledge thereof, regarding “anticompetitive or discriminatory practices or behavior by commercial mobile radio service providers.”⁴⁹ We also requested “[e]vidence, information and analysis demonstrating with particularity instances of systematic unjust and unreasonable rates ... [or a] pattern of such rates, that demonstrates the inability of the commercial mobile radio service marketplace in the state to produce reasonable rates through competitive forces,” and we indicated that we would consider such evidence “especially probative.”⁵⁰

⁴⁷ Section 20.13(a)(1) requires states to include “demonstrative evidence” establishing failed market conditions. *See* 47 C.F.R. § 20.13(a)(1). Section 20.13(a)(2) provides an extensive, detailed list of the types of information that states are encouraged to supply in order to meet this evidentiary burden. *See* 47 C.F.R. § 20.13(a)(2)(vi).

⁴⁸ *See, e.g.*, F. Scherer & D. Ross, *INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE*, 4-7 (3d ed. 1990) (“Scherer and Ross”); D. Carlton & J. Perloff, *MODERN INDUSTRIAL ORGANIZATION*, chs. 1, 9 (2d ed. 1994); J. Tirole, *THE THEORY OF INDUSTRIAL ORGANIZATION* 1-3 (1988).

⁴⁹ 47 C.F.R. § 20.13(a)(2)(vi).

⁵⁰ 47 C.F.R. § 20.13(a)(2)(vii).

20. In order to assess present market conditions so as to predict the future effectiveness of market forces within the state, we requested information on the number and type of CMRS providers in the state as well as their respective customers,⁵¹ and “an assessment of the extent to which services offered by the commercial mobile radio service providers the state proposes to regulate are substitutable for services offered by other carriers in the state.”⁵² We also requested information and complaint statistics revealing customer satisfaction with CMRS providers within the state.⁵³ In addition to this information, and as a further aid in projecting CMRS growth rates and other trends within the state, we also requested information on “trends” in each commercial radio provider’s rates and customer base⁵⁴ and on “opportunities for new providers to enter into the provision of competing services” as well as “an analysis of any barriers to such entry.”⁵⁵ In short, although states have the discretion to adduce such evidence in support of continued rate regulation as they see fit,⁵⁶ the comprehensive list of anticipated documentation in Section 20.13 gives states guidance concerning the evidence of structure, conduct, and performance that we would find persuasive in evaluating their petitions.

21. The purposes to which such evidence must be put also are straightforward. For example, with regard to industry structure, while a state seeking to regulate two-way mobile voice services may draw attention to the cellular duopoly, it is incumbent on that state to consider factors that have a direct and substantial impact on that structure. In particular, in evaluating a cellular-oriented petition, we will look with disfavor on any petition that fails to consider the immediate and near-term impact of PCS. Given the general statutory purpose of facilitating PCS-type services, it would be difficult to ignore or downplay the importance of fundamental structural changes when considering Section 332(c) petitions.

22. While PCS is not yet available to the public, it is an accepted antitrust principle that a firm may be considered in competitive analysis if it could enter the market in question.⁵⁷ Under the case law potential entry must be reasonably prompt, a typical period

⁵¹ 47 C.F.R. § 20.13(a)(2)(i) and (ii).

⁵² 47 C.F.R. § 20.13(a)(2)(iv).

⁵³ 47 C.F.R. § 20.13(a)(2)(viii).

⁵⁴ 47 C.F.R. § 20.13(a)(2)(ii) and (iii).

⁵⁵ 47 C.F.R. § 20.13(a)(2)(v).

⁵⁶ *CMRS Second Report and Order*, 9 FCC Rcd at 1504.

⁵⁷ *See, e.g., McCaw Personal Communications, Inc. v. Pacific Telesis Group*, 645 F.Supp. 1166, 1174 (N.D. Cal. 1986) (“the existence of low barriers to entry may rebut a prima facie showing of illegality, even where the combined market shares of the merged firms is quite high”), *citing* *United States v. Waste Management, Inc.*, 743 F.2d 976, 982- 83 (2d Cir. 1984). *See also* *American Bar*

being two years from the present in order to expect a significant impact on existing competitors,⁵⁸ and there is little doubt that PCS licensees will enter the market for CMRS in competition with cellular providers within this timeframe. We recently concluded an auction designed to license rapidly two additional competitive providers of wireless two-way voice and data communications in every local market in the country. As shown in the table below, the winning bidders in markets encompassing Ohio have committed to pay substantial sums for the right to operate wireless systems in that state. Having done so, it is reasonable to conclude they will deploy the facilities necessary to become operational as quickly as possible so as to begin recouping their investment.

Association, I ANTITRUST LAW DEVELOPMENTS (THIRD) 307-11 (1992) and cases cited therein.

⁵⁸ See *FTC v. Owens-Illinois, Inc.*, 681 F.Supp. 27, 37 & n.23 (D.D.C. 1988), *vacated on other grounds*, 850 F.2d 694 (D.C. Cir. 1988) (concerning “the extensive present and future intermaterial competition in the glass and other packaging industries,” “[a]n important, but undisputed, assumption of the economic analysis in this case is that the relevant time frame within which to view elasticity is approximately two years. In other words, conversions by purchasers between types of containers must be feasible within this time frame for demand and supply to be considered elastic”); Department of Justice & Federal Trade Commission, *Horizontal Merger Guidelines* (Apr. 2, 1992) (*Merger Guidelines*), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,104 (Apr. 7, 1992) at 20,573-10 (Entry Analysis, Timeliness of Entry: “In order to deter or counteract the competitive effects of concern, entrants must quickly achieve a significant impact on price in the relevant market. The Agency generally will consider timely only those committed entry alternatives that can be achieved within two years from initial planning to significant market impact”) (footnote omitted). The *Merger Guidelines* consider firms to be present competitors if, under certain conditions, they could shift production to a new product within only one year. *Id.* at 20,573-4

BROADBAND PCS AUCTION RESULTS

Ohio					
MTA #	Freq. Blk.	State	Market	Winning Bidder	Winning Bid
M038	A	Ohio	Columbus	AT&T Wireless PCS Inc.	\$22,290,000
M038	B	Ohio	Columbus	American Portable Telecommunications, Inc.	\$22,176,837
M021	A	Pennsylvania	Pittsburgh	WirelessCo, L.P.	\$28,719,362
M021	B	Pennsylvania	Pittsburgh	American Portable Telecommunications, Inc.	\$31,665,837
M018	A	Ohio	Cincinnati-Dayton	Omnipoint Corporation	\$347,518,309
M018	B	Ohio	Cincinnati-Dayton	WirelessCo, L.P.	\$442,712,000
M016	A	Ohio	Cleveland	Ameritech Wireless Communications, Inc.	\$87,000,000
M016	B	Ohio	Cleveland	AT&T Wireless PCS Inc.	\$85,881,000
M010	A	Maryland	Washington-Baltimore	American Personal Communications, L.P.	\$102,343,539 ⁵⁹
M010	B	Maryland	Washington-Baltimore	AT&T Wireless PCS Inc.	\$211,771,000
M005	A	Michigan	Detroit	AT&T Wireless PCS Inc.	\$81,177,000
M005	B	Michigan	Detroit	WirelessCo, L.P.	\$86,107,000

23. The nature of this impending competitive entry bears emphasis. Unlike the typical “ease of entry” case, where entry by new competitors is hypothetical or may occur only at an industry’s margin, PCS activity is undeniably real. It is not something that “may” occur, or that will occur only sporadically. It *is* happening, and it is happening on a nationwide

⁵⁹ This figure represents the amount to be paid by the pioneer’s preference licensee, as required by Section 309(j)(13) of the Communications Act. *See* American Personal Communications, Washington-Baltimore MTA #10, Frequency Block A; Cox Cable Communications, Inc., Los-Angeles-San Diego MTA #2, Frequency Block A; Omnipoint Communications, Inc., New York MTA #1, Frequency Block A; For Initial Authorizations in the Broadband Personal Communications Service, Memorandum Opinion and Order, 10 FCC Rcd 1101 (1994).

scale. As the recently-completed auction demonstrates, some of this entry is being mounted by large, well-financed entities with long experience and success in the telecommunications business. That field of competitors will be strengthened further upon completion of additional spectrum auctions in the near future. Available evidence indicates that cellular companies, faced with the near-term entry of PCS, have reacted by preparing for impending competition, *i.e.*, by lowering prices and adopting new technologies. For example, there are reports that observable declines in cellular prices are attributable in part to cellular carriers' knowledge that reasonably soon they will face new competition from PCS licensees.⁶⁰ The advent of PCS also appears unambiguously to be having an impact on the present marketplace; it is repeatedly cited as a precipitating factor in major mergers and joint ventures in the wireless industry.⁶¹ Thus, the available evidence indicates strongly that such entry is not speculative. Instead, all evidence suggests that it is empirically real and in the very near term will be substantial and pervasive. This warrants our consideration when evaluating a state petition to regulate rates under Section 332(c)(3).

24. Evidence of industry conduct and performance is also relevant. For example, a state might demonstrate specific instances of collusive behavior on the part of licensees. A state also might demonstrate that the statutory purposes of OBRA were not coming to fruition in that state, or were not likely to do so. We would find highly relevant any evidence that demand for CMRS services in general and cellular service in particular is too low to promote market entry by the number of licensees needed to ensure that facilities-based competition

⁶⁰ See, *e.g.*, COMM. DAILY, Apr. 24, 1995, "*Cellular Industry Eyes Further Cuts, Adjustments to Challenge PCS*" (report on independent researcher's projection of cellular service rate cuts "up to 40%" over next two years); COMM. DAILY, Telephony Section, Mar. 9, 1995 (NYNEX cellular company "said it will begin offering PCS-type services in metro N.Y. under Geographic Option Plan trademark, giving customers greater flexibility in setting rates and using service. Monthly charge is \$24.99, with additional min. at 29 cents in home county, 99 cents elsewhere"); M. Mills, *Wireless: The Next Generation*, WASH. POST, Feb. 20, 1995, Washington Business Section at 1, 14-15; M. Thyfault, *Bell Companies Get Personal -- Bell Atlantic, NYNEX Plan to Merge Their Mobile and Cellular Divisions as PCS Players Continue Consolidation*, INFORMATIONWEEK, Communications Section at 33, July 18, 1994 (Bell Atlantic announces a low-priced, low-range offering on its Annapolis, Philadelphia, and Pittsburgh cellular systems, intended to resemble PCS offerings).

⁶¹ See, *e.g.*, Applications of Bell Atlantic Corp. and NYNEX Corp. for Transfer of Cellular Radio Licenses to Cellco Partnership, Report No. CL-95-17, File Nos. 00762-CL-AL-1-95 *et al.*, filed Oct. 18, 1994, Exhibit 2 ("Description of Transaction and Public Interest Statement") at 12, 14; *Id.*, Attachment D, Affidavit of M. Lowenstein at para. 18; Motorola, Inc., Order, DA 95-890, released Apr. 27, 1995, at para. 17 (Wireless Telecommunications Bureau), *petition for reconsideration pending*; Applications of Craig O. McCaw, Transferor, and American Telephone and Telegraph Company, Transferee, for Consent to the Transfer of Control of McCaw Cellular Communications, Inc. and its Subsidiaries, 9 FCC Rcd 5836, 5862-63 (1994)(*Craig O. McCaw*), *appeal pending on other grounds sub nom. BellSouth Corp. v. FCC*, D.C.Cir. No. 94-639, filed Sept. 23, 1994.

will occur at a level adequate to warrant reliance on market forces, rather than rate regulation, as a means of protecting consumer interests.

25. Moreover, a very strong indication that industry conduct and performance are failing to serve consumer interests adequately would be evidence of a lack of investment on the part of licensees in CMRS facilities, or a failure by licensees to deploy adequately new facilities, technologies, and services. Such a showing might support a conclusion that licensees were restricting the output of a service solely to increase its price, and such activity might warrant an appropriate regulatory response. Of course, a successful showing of this nature requires more than evidence that a licensee is earning economic rents (*i.e.*, pricing above cost). It is readily conceivable that economic rents earned in the cellular industry also might advance important public policies, such as if they were applied in furtherance of the statutory goal of promoting investment in the cellular infrastructure. In that event, the rates underlying such profits would have been paid by those who ultimately benefit from reinvestment in cellular facilities. Specifically, as a cellular carrier adds large numbers of customers, it must expand capacity so that the quality of service to existing and new customers is not degraded. Thus, an analysis of economic performance must place great weight on reinvestment of profits in this high-growth industry, for, without such reinvestment, consumers might receive less value for their money. In short, the significance of economic rents under our Section 332(c)(3) analysis is found not simply in their existence in the first instance but in their subsequent application.

26. Finally, we note that SCP evidence typically may be segregated into two categories: static factors and dynamic factors.⁶² For example, prices or rates of return in a given year are static factors. Growth and investment are dynamic factors. In addition, a dynamic analysis views price and other static factors at a given point in time in their relationship to static factors such as price in the future.⁶³ Thus, a rate of return that looks high today may be fair and reasonable when looked at in terms of its impact on future prices.⁶⁴ Furthermore, static factors are, as the name implies, static, or even temporary, whereas the long-term impact of dynamic factors is more important because their effects are cumulative and more permanent. Thus, we believe that evidence concerning dynamic factors is a more persuasive market indicator than evidence concerning static factors. Given the rapidly changing nature of the market in which wireless services are provided and the statutory purposes of OBRA, we conclude that evidence of where a market is going is more relevant than evidence of where it has been.

⁶² See, e.g., J. Tirole, *THE THEORY OF INDUSTRIAL ORGANIZATION* 209-70 (1988).

⁶³ *Id.* at 239-70.

⁶⁴ In particular, consumers may be better off facing somewhat higher prices today in exchange for high levels of investment by existing competitors.

27. No single factor, standing alone, necessarily would tip the balance for or against a particular state petition. The statute allows the states flexibility to make their showings in the best manner they see fit, and it is conceivable that we might find a showing based primarily on one factor to be persuasive. Those demonstrations that are tied most closely to the statutory scheme are, of course, the most determinative. Our decisions in this proceeding and similar proceedings are based on the totality of the evidence.

IV. OHIO PETITION

28. In its petition, Ohio seeks “to preserve its right for future rate and market entry regulation of commercial mobile services.” Ohio states that it does not presently set rates or limit market entry of commercial mobile radio service (CMRS) providers, but that it currently “exercises jurisdiction over cellular service providers and radio common carriers.”⁶⁵ The state explains that this jurisdiction extends to: (1) using its complaint authority to ensure that the rates of a cellular wholesaler are not unduly discriminatory, preferential to affiliates, or anticompetitively set below cost; and (2) reviewing contractual arrangements between regulated utilities, including interconnection and roaming agreements of CMRS providers, to ensure the availability of competitive alternatives.⁶⁶ Ohio does not believe that regulation of this nature constitutes rate and entry regulation preempted by Section 332(c).⁶⁷ It states that it monitors and identifies market entrants and the economic dynamics of the industry in order to obtain the information necessary to regulate telecommunications matters other than rates and entry, such as infrastructure deployment.⁶⁸

29. Ohio describes its uncertainty as to whether the current two-carrier cellular industry structure, taken together with current and future functional substitutes, “will be sufficient to impose the degree of market discipline necessary to obviate any need for regulation.”⁶⁹ Accordingly, Ohio seeks to preserve its right to regulate rates, and apparently also seeks some potential future authority over entry.⁷⁰ The state asserts that the OPUC “does not presently set rates or limit market entry,”⁷¹ but it notes that its filing is submitted

⁶⁵ Ohio Petition at 1.

⁶⁶ *Id.* at 3.

⁶⁷ *Id.* at 2.

⁶⁸ *Id.* at 1-4.

⁶⁹ Ohio Petition at 1-2, 6. As discussed *infra*, Section 332(c)(3) of the Communications Act preempts state regulation of CMRS market entry and does not provide a method for states to petition to regulate such entry. *See* 47 U.S.C. § 332(c)(3).

⁷⁰ Ohio Petition at 1-2, 6.

⁷¹ *Id.* at 1.

. . . to preserve Ohio's right to petition the FCC at some point in the future for the purpose of additionally regulating the rate and market entry of commercial mobile radio service providers in the State of Ohio."⁷²

30. Many parties argue that Ohio's admission raises the threshold issue of whether it is statutorily qualified to file a petition to continue CMRS rate regulation. Our decision to deny Ohio's petition on the merits, *infra*, renders that argument moot.

V. CASE ON THE MERITS

A. Summary

31. We deny Ohio's petition to regulate the rates and entry of CMRS providers. Ohio's Petition does not demonstrate, as required under Section 332(c)(3)(A) of the Communications Act, that it was regulating "the rates charged" by any CMRS provider in that state as of June 1, 1993.⁷³ In addition, we find that Ohio has failed to meet its statutory burden of showing that market conditions for the service(s) at issue fail to protect subscribers adequately from unjust and unreasonable rates, or unjustly and unreasonably discriminatory rates. Finally, in regard to Ohio's implication that the state may in future request authority to regulate entry into the CMRS marketplace, we note that Section 332(c)(3)(A) of the Act wholly displaces state regulation of CMRS entry.⁷⁴

B. Disposition on the Merits

1. Pleadings of the Parties

32. Ameritech states that Ohio makes no showing that market conditions present a need to regulate cellular services.⁷⁵ CTIA, GTE, McCaw, NewPar, Ray's Electronics and Sprint Cellular assert that the Ohio petition fails to meet the statutory standard and the requisite burden of proof, and provides no evidence of market conditions.⁷⁶ CTIA notes that a state must present more evidence than a simple desire to regulate CMRS; the statute requires a showing that market conditions are such that rate regulation is necessary to protect

⁷² *Id.* at 6.

⁷³ *See* 47 U.S.C. § 332(c)(3)(A).

⁷⁴ *See* 47 U.S.C. § 332(c)(3)(A).

⁷⁵ Ameritech Comments at 3.

⁷⁶ CTIA Comments at 2-3, 6 and Reply at 3-4; GTE Comments at 11-13; McCaw Comments at 3, 11; NewPar Comments at 1-3, 6-7 and Reply at 1-2; Ray's Electronics at ii, 6-7; Sprint Cellular Comments at 5-6.

against market failure.⁷⁷ GTE asserts that Ohio does not provide any evidence addressing market conditions, the OPUC's existing or proposed rate regulation, if any, or why rate regulation is now needed.⁷⁸ Indeed, GTE states, Ohio acknowledges that it remains to be seen whether cellular service market conditions will obviate the need for state regulation. In sum, according to GTE, Ohio makes no *prima facie* case that continued state regulation is needed.

33. McCaw adds that rate regulation is unnecessary in light of current and reasonably foreseeable market conditions, and states that the Ohio has provided no evidence that cellular carriers have market power, or that the level of competition in Ohio departs from conditions relied on by the Commission in forbearing from imposing certain Title II requirements in our proceeding implementing the 1993 amendments of Sections 3(n) and 332 of the Communications Act.⁷⁹ McCaw also states that, contrary to Ohio's assertion that the quantity of resellers in Ohio reflects the nature of competition, the number and financial condition of cellular resellers is irrelevant to the statutory goal of protecting subscribers from discriminatory rates.⁸⁰ Ohio, McCaw asserts, provides no evidence that facilities-based carriers are pricing wholesale service in a discriminatory manner.⁸¹ Further, McCaw claims, there is no economic justification for Ohio's regulation of wholesales rates.⁸² Sprint Cellular adds that Ohio provided no evidence of market conditions in the state.⁸³

34. On the other hand, the National Cellular Resellers Association (NCRA) asserts that until effective competition arrives, perhaps in the form of wide-area SMR and PCS, continued rate regulation is necessary to restrain dupolists' power.⁸⁴ NCRA argues that a number of Federal agencies have also found little evidence of cellular service market competition, and notes that the Commission has classified cellular as dominant and tentatively concluded that cellular service providers should be subjected to equal access obligations.⁸⁵

⁷⁷ CTIA Comments at 2, 10.

⁷⁸ GTE Comments at 11-13.

⁷⁹ McCaw Comments at 3, 11.

⁸⁰ *Id.* at 3-4.

⁸¹ *Id.*

⁸² *Id.* at 13 & Exhibit A (Affidavit of economist B. Owen).

⁸³ Sprint Cellular Comments at 6-7.

⁸⁴ NCRA Comments at 2-3.

⁸⁵ *Id.* at 3-4.

The NCRA also asserts that existing state regulations are the only means available to protect consumers.⁸⁶

35. McCaw responds that the Federal documents cited by the NCRA have no value in determining whether any particular state has met its burden of proof in justifying current or prospective regulation of cellular markets.⁸⁷ New Par adds that the NCRA's comments fail to address the OPUC's material defect of failing to make the requisite statutory showing that continued rate regulation is necessary.⁸⁸

36. In regard to CMRS other than cellular services, AirTouch Paging, PageMart and MTel state that Ohio has not met the burden of showing that the continued regulation of paging entry or rates is justified, and its petition should be denied.⁸⁹ AirTouch Paging also asserts that the paging industry is competitive, and is characterized by relatively low barriers to entry, a variety of frequencies, many facilities-based competitors, and healthy price competition.⁹⁰ MTel adds that Ohio has not met its burden with regard to narrowband PCS, in that it provided no showing with regard to that highly competitive service which would meet the statutory standard.⁹¹ AMSC states that Ohio petition fails to make a specific showing as to MSS, and does not differentiate its requests regarding providers that are not currently offering service.⁹² AMSC urges the Commission to preempt state regulation of the MSS ground segment, based on Ohio's failure to make a contrary showing, and based on past Commission policy of general preemptive action in similar instances.⁹³ AMTA, describing the high degree of competition among private land mobile systems which have been reclassified as CMRS, opposes any state regulation of the entry or rates of such systems.⁹⁴ AMTA asserts that the petition is silent regarding intent to include reclassified

⁸⁶ *Id.* at 5-6.

⁸⁷ McCaw Reply at 5-6.

⁸⁸ NewPar Reply at 3.

⁸⁹ AirTouch Paging Comments at ii, 9 and Reply at 1-3; MTel Comments at 1-2; PageMart Reply at 1-2.

⁹⁰ *Id.* at 8-9; *accord* Personal Communications Industry Association (PCIA) Comments at i, 8, 9-10 & n. 21, 16-17.

⁹¹ MTel Comments at 1-2, 6-8.

⁹² AMSC Comments at 1-2, *citing* 9 FCC Rcd 1411 (1994).

⁹³ *Id.*

⁹⁴ AMTA Comments at 1, 6-7; *accord* E.F. Johnson Comments (requesting exemption of "local" SMR and 220 MHz land mobile systems from state rate regulation).

private services within its regulatory framework, and the state provides no evidence that market conditions in this segment of the CMRS industry do not adequately protect subscribers.⁹⁵ Nextel asserts that no state has demonstrated that regulation of intrastate rates of non-dominant CMRS is necessary to protect subscribers. Rate regulation, Nextel states, would further inhibit the ability of emerging wireless providers to compete with cellular incumbents and would benefit only dominant cellular carriers.⁹⁶ Nextel points out that the Commission has recognized that the cellular marketplace is not fully competitive, and has acknowledged that all CMRS providers, other than cellular licensees, currently lack market power. Nextel asserts that these characterizations provide the basis for distinguishing among classes of CMRS providers in preempting state regulation. Continued regulation of cellular service providers may be necessary in order to prevent anticompetitive practices that will stifle development of the wireless market.⁹⁷ But the states make no showing that regulation of non-dominants is necessary, nor could they, since wide area SMR and PCS are not duopolists, nor do they command a transmission bottleneck.⁹⁸ If the potential future CMRS marketplace, with six different competitors, was the reality now, Nextel asserts, there would be no basis for state regulation at all.⁹⁹ PageNet opposes the state petitions to the extent that they seek to regulate non-cellular CMRS, and asserts that the statutory standard has not been met.¹⁰⁰ The Personal Communications Industry Association (PCIA) argues that no states even attempted to justify continued regulation of paging. Thus, state regulation purporting on its face to apply to the highly competitive paging market should be preempted as of August 10, 1994.¹⁰¹

2. Discussion

37. In order to continue regulation of intrastate cellular rates, Ohio must prove that “market conditions with respect to such services fail to protect subscribers adequately from

⁹⁵ *Id.* at 5-7.

⁹⁶ Nextel Comments at i-ii, 2, 7-9.

⁹⁷ *Id.* at 9-10, 12-13.

⁹⁸ *Id.* (also asserting that new competitors do not have luxury of spreading costs associated with regulatory compliance across an established customer base, and therefore should be permitted maximum flexibility).

⁹⁹ *Id.* at 9-10.

¹⁰⁰ PageNet Comments at 1.

¹⁰¹ PCIA Comments at i,8, 9-10 & n. 21, 16-17.

unjust and unreasonable rates or rates that are unjustly or unreasonably discriminatory.’’¹⁰² Ohio has not satisfied the statutory requirement.

38. Our decision is based in part on the fact that the OPUC itself has not concluded that market conditions fail to protect consumers. Although Ohio states it is not certain whether the evolving CMRS industry structure imposes sufficient market discipline to avoid any need for regulation,¹⁰³ the statute requires a *demonstration* that market conditions “fail” to protect subscribers. The OPUC has not provided that demonstration for any CMRS. Indeed, in an order adopted in October 1993, Ohio found “a reasonable probability that [the OPUC’s relaxation of cellular regulation] will not adversely affect consumers.’’¹⁰⁴ No information has been filed in the record of this proceeding that causes us to question the OPUC’s own judgment in this regard.

39. There are other bases for our decision. First, the OPUC Petition does not address the direct and fundamental changes to the duopoly cellular market structure that are being realized by PCS and other services, such as wide area SMR. Second, the OPUC presents no evidence of systematically collusive or other anticompetitive practices concerning the provision of any CMRS. Third, the OPUC does not present evidence showing widespread consumer dissatisfaction with CMRS providers in that state, or discuss what specific rate regulations are needed to address whatever level of dissatisfaction may exist. Fourth, the OPUC does not present any analysis regarding the critical issue of investment by cellular licensees (or by any other CMRS providers).¹⁰⁵ For all these reasons, we deny the OPUC’s petition.

VI. REGULATION OF OTHER TERMS AND CONDITIONS

40. Prior to OBRA, Section 332 prohibited the states from imposing “rate ... regulation” upon certain wireless telecommunications carriers.¹⁰⁶ This prohibition was

¹⁰² See 47 U.S.C. § 332(c)(3)(A).

¹⁰³ Ohio Petition at 1-2, 6.

¹⁰⁴ Finding and Order, Competitive Telecommunications Services, Case No. 89-563-TP-COI, 1993 WL 500056, slip op. at *16 (Ohio P.U.C. Oct. 22, 1993).

¹⁰⁵ An important indicator of market failure, in our view, would be evidence that cellular firms are withholding investment in facilities as a means of restricting output and thus boosting price. See Section III, *supra*. No such demonstration exists on this record.

¹⁰⁶ The statute provided in relevant part that “[n]o state or local government shall have any authority to impose any rate or entry regulation upon any private land mobile service” 47 U.S.C. § 332(c)(3) (prior to revisions enacted by OBRA).

construed broadly to preclude almost all state regulatory activity.¹⁰⁷ As revised by OBRA, Section 332(c)(3) now prohibits states from regulating “the rates charged” for CMRS, but it expressly reserves to them the authority to regulate the “other terms and conditions of commercial mobile services.” Although there is no definition of the term “the rates charged” in the statute or its legislative history, there is legislative history regarding the “other terms and conditions” language. We believe it is sufficient to allow us to comment in a preliminary manner on what regulatory activities Ohio is entitled to continue, despite our denial of its Petition.

41. The House of Representatives Committee on Energy and Commerce, reporting on the House bill that was incorporated into the amended Section 332, noted that even where state rate regulation is preempted, states nonetheless may regulate other terms and conditions of commercial mobile radio services. The Committee stated:¹⁰⁸

By “terms and conditions,” the Committee intends to include such matters as customer billing information and practices and billing disputes and other consumer protection matters; facilities siting issues (*e.g.*, zoning); transfers of control; the bundling of services and equipment; and the requirement that carriers make capacity available on a wholesale basis or such other matters as fall within a state’s lawful authority. This list is intended to be illustrative only and not meant to preclude other matters generally understood to fall under “terms and conditions.”

¹⁰⁷ See, *e.g.*, *Telocator Network of America v. FCC (Millicom)*, 761 F.2d 763 (D.C. Cir. 1985) (upholding Commission’s interpretation of Section 332(c)(1), 47 U.S.C. § 332(c)(1), in determining whether preemption provisions of that section apply to a given communications system). See also, *e.g.*, *American Teltronix (Station WNHM552)*, 3 FCC Rcd 5347 (1988) (“Congress did not intend that a private land mobile licensee who, either intentionally or inadvertently, provides service to ineligible users would thereby subject itself to state regulatory authority, including possible sanctions, for operating as a common carrier.”), *recon. denied*, 5 FCC Rcd 1955, 1956 (1990)(note omitted) (“state entry and rate regulation of a communications service offered by a private land mobile radio system is preempted by statute [A]ccompanying legislative history reveals that Congress recognized the Commission’s broad discretion to dictate which land mobile systems are to be regulated as private.”). The Commission again stated its view of preemptive authority under that provision when it adopted a Notice of Inquiry respecting Personal Communications Services. Amendment of the Commission’s Rules To Establish New Personal Communications Services, Notice of Inquiry, 5 FCC Rcd 3995, 3998 n.19 (1990):

If these services are considered to be, or classified as, radio common carrier telephone exchange services, then the states, under Section 2(b) of the Act, may impose entry and rate regulations upon intrastate operations. If we classify these services as private land mobile, such state regulation would be expressly preempted under Section 332(c)(3).

¹⁰⁸ H.R. Rep. No. 103-111, 103d Cong., 1st Sess. at 261.

42. Establishing with particularity a demarcation between preempted rate regulation and retained state authority over terms and conditions requires a more fully developed record than is presented by the Ohio Petition and related comments. Thus, we will not expound at any length on this matter. The legislative history largely speaks for itself. It is possible to extrapolate certain findings from the legislative history, however, and we do so here in the interest of minimizing future proceedings directed at this issue.

43. Ohio states that it presently exercises jurisdiction over cellular service providers and radio common carriers to ensure that wholesale cellular rates are not below cost through its complaint authority, to monitor the industry, and to review contractual interconnection and roaming arrangements.¹⁰⁹ First, although Ohio may not prescribe, set, or fix rates in the future because it has lost authority to regulate “the rates charged” for CMRS rates, it does not follow that its complaint authority under State law is entirely circumscribed. Complaint proceedings may concern carrier practices, separate and apart from their rates.¹¹⁰ In consequence, it is conceivable that matters might arise under state complaint procedures that relate to “customer billing information and practices and billing disputes and other consumer matters.” We view the statutory “other terms and conditions” language as sufficiently flexible to permit Ohio to continue to conduct proceedings on complaints concerning such matters, to the extent that State law provides for such proceedings. Further, the Committee’s list of “other terms and conditions” explicitly contemplates review by states of contractual arrangements relating to “transfers of control.” We conclude, therefore, that Ohio’s review of contractual agreements between two or more CMRS providers, including interconnection agreements and roaming agreements entered into by CMRS providers, also falls within the “other terms and conditions” language of section 332(c)(3) to the extent that such review does not directly affect end-user rates.¹¹¹

44. Under the same logic, we also conclude generally that several other aspects of a state’s existing regulatory system may fall outside the statutory prohibition on rate regulation. For example, a requirement that licensees identify themselves to the public utility commission, or whatever other agency the State decides to designate, does not strike us as rate regulation, so long as nothing more than standard informational filings is involved. Moreover, nothing in OBRA indicates that Congress intended to circumscribe a state’s traditional authority to monitor commercial activities within its borders. Put another way, we believe Ohio retains whatever authority it possesses under state law to monitor the structure, conduct, and performance of CMRS providers in that state. We expect that, to the extent any

¹⁰⁹ Ohio Petition at 1-4.

¹¹⁰ *E.g.*, Section 208(a) of the Communications Act authorizes complaints by any person “complaining of *anything done or omitted to be done* by any common carrier subject to this Act, in contravention of the provisions thereof.” 47 U.S.C. § 208(a)(emphasis added).

¹¹¹ Ohio Petition at 2.

interested party seeks reconsideration on this issue, it will specify with particularity the provisions of the Ohio regulatory practice at issue.

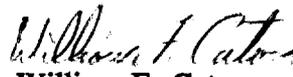
45. Finally, however, the statutory language is not broad enough to accommodate Ohio's apparent interest in asserting authority to regulate marketplace entry by CMRS providers.¹¹² Section 332(c)(3) completely preempts state entry regulation of CMRS.¹¹³

VII. ORDERING CLAUSES

46. Accordingly, pursuant to Section 332(c)(3) of the Communications Act, 47 U.S.C. § 332(c)(3), **IT IS ORDERED** that the Petition of the State of Ohio for Authority To Continue To Regulate Commercial Mobile Radio Services **IS DENIED** for the reasons set forth above.

47. **IT IS FURTHER ORDERED**, pursuant to Sections 1.4(b), 1.4(b)(2), and 1.106(f) of the Commission's Rules, that any petition for reconsideration of this order **SHALL BE FILED** within thirty days of the day after the day on which public notice of this action is given.¹¹⁴

FEDERAL COMMUNICATIONS COMMISSION


William F. Caton
Acting Secretary

¹¹² See Ohio Petition at 1-2, 6.

¹¹³ Section 332(c)(3)(A) provides: "no state or local government shall have any authority to regulate the entry of . . . any commercial mobile radio service." 47 U.S.C. § 332(c)(3)(A).

¹¹⁴ Although we assigned the OPUC Petition a docket number for administrative convenience, this is an adjudicatory-type proceeding, not a rulemaking.