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July 19, 1996

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CTIA

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Mr. William F. Caton  
Secretary  
Federal Communications Commission  
1919 M Street, NW, Room 222  
Washington, DC 20554

Re: **Ex Parte Presentation**  
**CC Docket No. 95-185** (Interconnection Between Local  
Exchange Carriers and Commercial Mobile Radio  
Service Providers) and **CC Docket No. 96-98**  
(Implementation of the Local Competition Provisions in  
the Telecommunications Act of 1996)

Dear Mr. Caton:

On Friday, July 19, 1996, the attached CTIA White Paper, "RECIPROCAL  
TERMINATION IS ESSENTIAL FOR LEC-CMRS COMPETITION," with the accompanying cover  
letter, were delivered to FCC Chairman Reed E. Hundt, Commissioner James H. Quello,  
Commissioner Susan Ness, Commissioner Rachelle B. Chong and the Commission  
employees listed below

Rosalind Allen  
Lauren Belvin  
James Casserly  
James Coltharp  
Joseph Farrell  
Pamela Greer  
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FEDERAL BUREAU OF INVESTIGATION  
OFFICE OF SECRETARY

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Pursuant to Section 1.1206 of the Commission's Rules, an original and one copy of this letter and the attachment are being filed with your office. If you have any questions concerning this submission, please contact the undersigned.

Sincerely,



Robert F Roche

Attachments



Building The  
Wireless Future

July 19 1996

The Honorable Reed E. Hundt  
Chairman  
Federal Communications Commission  
1919 M Street, NW, Room 814  
Washington, DC 20554-0001

**Re: Ex Parte Presentation  
CC Docket No. 95-185** (Interconnection Between Local  
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(Implementation of the Local Competition Provisions in  
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**Randall S. Coleman**  
Vice President for  
Regulatory Policy and Law

Dear Mr. Chairman:

The attached CTIA White Paper, "RECIPROCAL TERMINATION IS ESSENTIAL FOR LEC-CMRS COMPETITION," emphasizes the importance of controlling the cost of interconnection to promoting wireless-LEC competition, and the critical role of reciprocal compensation in such cost control. As the paper stresses

1. Experts agree that controlling both infrastructure and interconnection costs is key to competition between wireless and wireline carriers.
2. The Commission must realize the the average cost of LEC interconnection -- two-tenths of a cent per minute -- reflects a blend of both end office and tandem interconnection, hence a higher figure is unwarranted.
3. A national interconnection policy requires national rules, in order to avoid inconsistent and inequitable state rules that would effectively constitute barriers to entry, depriving consumers of a choice of service providers and a choice of service options.

As the paper notes, "the Commission has at hand an historic opportunity to remove a critical barrier to competition in the last bastion of telecommunications monopoly: the wireline local exchange." Now is the time, and here is the place, for the Commission to fulfill its pledge to promote competition between wireless and wireline carriers.

Sincerely,



Randall S. Coleman

Attachment

***LEC-CMRS Interconnection WHITE PAPER No. 6***  
***First Series***

***RECIPROCAL TERMINATION IS ESSENTIAL FOR***  
***LEC-CMRS COMPETITION***

***July 19, 1996***

## RECIPROCAL TERMINATION IS ESSENTIAL FOR LEC-CMRS COMPETITION

For consumers to enjoy the benefits of competition, structural barriers must be eliminated. Congress recognized this in 1993 when it preempted state rate and entry regulation. The FCC affirmed this when it rejected state petitions to reimpose such burdensome regulations. And in its decisions on the size of PCS areas and spectrum, number portability, and the fixed-use of wireless services, the Commission has repeatedly used its authority (including new section 332) to implement its intent that wireless be able to compete directly with local wireline service.<sup>1</sup>

In its docket on LEC-CMRS interconnection the Commission has at hand an historic opportunity to remove a critical barrier to competition in the last bastion of telecommunications monopoly: the wireline local exchange.<sup>2</sup> The Commission should seize upon this opportunity to fulfill its pledge to promote competition between wireless and wireline carriers

### INTERCONNECTION: THE KEY TO CMRS-LEC COMPETITION

John M. Bensché of CS First Boston recently observed that **the key to competition between wireless and wireline carriers lies in bringing down the cost of infrastructure and interconnection.** As he noted: **“competition with landline in the local loop requires the cost of a minute of airtime fall in line with the price . . . . A cut in interconnection expenses, via something like Bill-and-Keep, or even a cost based method, will alleviate the pressure on gross margins in a wireless local loop model.”**<sup>3</sup>

Carriers themselves are addressing the issue of capital expenditures (and are deploying digital technologies in doing so), but only the FCC can really address the other side of the equation: above-cost LEC interconnect rates. This is because the power to impose such rates has been effectively unconstrained at the state level for the past twelve years. The FCC itself admitted in the *LEC-CMRS Interconnection NPRM*, that **for CMRS to “begin to compete directly against LEC wireline services, it is important**

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<sup>1</sup>See e.g., *First Report and Order and Further Notice of Proposed Rulemaking, Telephone Number Portability*, CC Docket No. 95-116, RM 8535, FCC 96-286, released July 2, 1996, at paras. 155 (the requirement of CMRS number portability “is in the public interest because it will promote competition among cellular, broadband PCS, and covered SMR carriers, as well as among CMRS and wireless providers.”) and 160 (citing decisions favoring local loop competition, and speedy deployment of PCS); see also “FCC Votes to Permit Flexible Service Offerings in the Commercial Mobile Radio Services,” *FCC News Release*, June 27, 1996 (“The rules adopted today replace rules that . . . caused uncertainty among wireless carriers as to the scope of fixed services that were allowed under our rules, and could potentially inhibit development of wireless local loop and other fixed services.”)

<sup>2</sup>*Notice of Proposed Rulemaking, Interconnection Between Local Exchange Carriers and Commercial Mobile Radio Service Providers*, CC Docket No. 95-185, released January 11, 1996, at para. 2.

<sup>3</sup>*Bensché-Marks: Wireless Communications*, Vol. 96-01, April 1, 1996, at p.2 (emphasis supplied).

**that the prices, terms, and conditions of interconnection arrangements not serve to buttress LEC market power against erosion by competition.”<sup>4</sup>**

The FCC recently affirmed that to effectively compete with wireline carriers, “CMRS carriers are likely to change their pricing structures to resemble more closely wireline pricing structures.”<sup>5</sup> Recognizing its responsibility to remove another barrier to competition, the FCC also adopted number portability as one way of “encourag[ing] CMRS-wireline competition, creating incentives for carriers to reduce prices for telecommunications services and to invest in innovative technologies, and enhancing flexibility for users of telecommunications services.”<sup>6</sup> But that can only be one step towards promoting competition -- cost control remains essential. As AirTouch Communications has observed, the cost of interconnection is a critical factor, requiring Commission attention.<sup>7</sup>

## **LEC INTERCONNECTION RATES ARE UNCONSCIONABLY EXCESSIVE**

The Commission’s dockets on CMRS-LEC interconnection and on implementing the local competition provisions of the Telecommunications Act of 1996 have revealed facts that should make LECs blush and regulators (and consumers) wince.

**First, the average per minute rate demanded by LECs for the termination of wireless calls is 15 times cost.** Dr. Gerry Brock, drawing on an earlier study by Dr. Bridger Mitchell, has introduced evidence that the average cost of LEC interconnection is two-tenths of a cent -- even though LECs charge an average per minute rate of 3 cents.<sup>8</sup> Moreover, it must be understood that **the two-tenths of a cent cost figure is a blended figure, reflecting both end office and tandem interconnection costs.**

The Hatfield Model shows on a state-by-state basis how far out of line the LECs’ interconnection rates are with their costs. The per minute cost of end office switching and tandem switching are consistently far below the rates charged CMRS carriers for those functions by the LECs. **Even LEC-originated figures used in other proceedings demonstrate that their incremental costs are far below the rates charged by LECs for CMRS interconnection.**<sup>9</sup>

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<sup>4</sup>*LEC-CMRS Interconnection NPRM* at para. 2 (emphasis supplied)

<sup>5</sup>*First Report and Order and Further NPRM, Telephone Number Portability*, at para. 161.

<sup>6</sup>*Id.* at para. 160.

<sup>7</sup>See Reply Comments of AirTouch Communications, Inc. CC Docket No. 95-185, March 27, 1996, at p.11.

<sup>8</sup>See Brock “The Incremental Cost of Local Usage,” CC Docket No. 94-54, March 21, 1995, drawing on Mitchell “Incremental Costs of Telephone Access and Local Use,” (RAND Corporation, 1990), *reprinted* in Pollard, ed., *Marginal Cost Techniques for Telephone Services: Symposium Proceedings* (NRR1, 1991).

<sup>9</sup>See e.g., Letter from J.G. Harrington, Dow, Lohnes & Albertson, to William F. Caton, FCC, Docket No. 95-185, June 26, 1996, at Tab 2, pp.3-4 (citing NYNEX submission in Massachusetts showing a blended rate of \$0.0023 per minute for end office/tandem interconnection and Florida PSC staff conclusion (based on GTE testimony) that \$0.0025 per minute would cover end office TSLRIC and tandem LRIC, plus a contribution to common costs)

## **A NATIONAL PRO-COMPETITIVE POLICY DEMANDS NATIONAL RULES -- THE STATUS QUO IS A BARRIER TO COMPETITION AND CUSTOMER BENEFIT**

In its number portability proceeding, the FCC declared: "it is important that we adopt uniform national rules" to avoid the development of policies on a "state-by-state basis [which] could potentially thwart the intentions of Congress . . . and . . . retard the development of competition in the provision of telecommunications services."<sup>10</sup>

The truth of this was dramatically borne out in the FCC's proceeding implementing the local competition provisions of the Telecommunications Act of 1996. As AT&T pointed out:

The comments of some state commissions underscore that a comprehensive national requirement of I.E.C.-to-CMRS interconnection is needed. The Commission has been given plenary jurisdiction under Section 332(c) of the Act to order such jurisdiction. More fundamentally, whether under Section 332(c) or under Section 251, **the Commission should act decisively to avoid piecemeal state regulations that impose exorbitant interconnection and 'pay or play' duties on CMRS providers, purport to subject CMRS providers to state entry and rate regulation contrary to the Act, or otherwise erect impermissible barriers to competition.**<sup>11</sup>

The threat posed by inconsistent state regulations is real and recognized by many parties -- including some state authorities. For example, the Texas Office of Public Utility Counsel warned in their Initial Comments in CC Docket No. 96-98 that:

**The greater the degree of uncertainty faced by potential local exchange competitors about regulatory policies across the various jurisdictions, the more difficult it will be for competitors to develop viable entry strategies.** . . . the Commission is quite right, therefore, to observe that the absence of consistent pricing policies could constitute a barrier-to-entry.<sup>12</sup>

Even state regulators who have argued for minimal rules have conceded the importance of national guidelines.<sup>13</sup>

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<sup>10</sup> *First Report and Order and Further NPRM, Telephone Number Portability*, at para. 37.

<sup>11</sup> Reply Comments of AT&T, CC Docket No. 96-98, filed May 30, 1996, at p.8 n.9 (emphasis supplied).

<sup>12</sup> Initial Comments of Texas Office of Public Utility Counsel, CC Docket No. 96-98, May 16, 1996, at p.15 (emphasis supplied).

<sup>13</sup> See e.g., Comments of Kentucky Public Service Commission, CC Docket No. 96-98, at pp.3-4

Importantly, residential and business consumer advocates support reciprocal termination. The Consumer Federal of America has stressed that “The current compensation regime for traffic exchange is the most anti-consumer, anti-competitive model and is a remaining vestige of monopoly control over the local network. The Commission has made the appropriate proposal to institute an interim bill and keep regime for wireless services.”<sup>14</sup>

The Telecommunications Ratepayers Association for Cost-based and Equitable Rates (TRACER) has also criticized the LEC-dominant status quo, correctly noting that **the LECs’ high and one-sided interconnect rates represent “an especially high barrier to new entrants” while “[t]he cost savings realized from a bill and keep policy will allow CMRS carriers to better position themselves as competitors in the local exchange market.”**<sup>15</sup>

Like many potential new entrants and existing CMRS licensees, the Texas Office of Public Utility Counsel also warned that rates involving “[m]ark-ups raise the cost of doing business for new entrants and provide incumbent LECs with a source for anticompetitive mischief.”<sup>16</sup> The Texas Office of Public Utility Counsel, for one, urged the Commission to “promulgate rules that give potential entrants the opportunity to operate *viably* in all market segments and all geographic areas”<sup>17</sup>

## **FCC ACTION IS ESSENTIAL TO PROMOTE A FAIR MARKETPLACE**

Reciprocal termination constitutes a regime which will promote competition and squeeze out excessive costs. Even a per minute rate of zero is closer to cost than the current LEC interconnection rates. Moreover, the states which have adopted bill and keep have recognized that this policy compensates both the incumbent and the new entrant.<sup>18</sup>

But the FCC cannot count on all states to make the right choice, or to adopt consistent rules, and inconsistent rules jeopardize the ability of wireless carriers to compete with the incumbent LECs in the marketplace. The burden of such inconsistent and inequitable rules falls heavily upon consumers, who are thereby deprived of a choice of service providers and of a choice of service options. **Only the FCC can guarantee consistent and equitable interconnection across the nation.** Only the FCC can break the LEC stranglehold on their would-be wireless competitors.

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<sup>14</sup>Statement of Bradley Stillman, Telecommunications Policy Director, CFA, June 25, 1996.

<sup>15</sup>Reply Comments of TRACER, CC Docket No. 95-185, March 22, 1996, at p.4.

<sup>16</sup>Initial Comments of Texas Office of Public Utility Counsel at p.20. *See also* Reply Comments of AirTouch, CC Docket No. 95-185, at pp.24-25.

<sup>17</sup>Initial Comments of Texas Office of Public Utility Counsel at p.1 (emphasis in original).

<sup>18</sup>*See e.g., Washington Utilities and Transportation Commission, et al. v. U S WEST Communications, Inc.*, Docket Nos. UT-941464, UT-941465, UT-950146, & UT-950265, at 35, *aff’d sub nom U S WEST Communications, Inc. v. Washington Util. & Transportation Comm’n*, Case No. 96-2-00177-5 SEA (Wash. Sup. Ct. King County, adopted January 23, 1996)