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Building The Wireless Future™

CTIA

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July 22, 1996

RECEIVED

JUL 22 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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 Monday, July 22, 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	Laurence Atlas	Rudolfo Baca
Lauren Belvin	Nancy Boocker	Karen Brinkmann
James Casserly	Jackie Chorney	John Cimko
James Coltharp	David Ellen	Michelle Farquhar
Joseph Farrell	David Furth	Donald Gips
Pamela Greer	Daniel Grosh	Michael Hamra
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Edward Krachmer	Blair Levin	Kathleen Levitz
Jane Mago	Jay Markley	Elliot Maxwell
Pamela Megna	Richard Metzger	Ruth Milkman
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Christopher Wright		

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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

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Randall S. Coleman
Vice President for
Regulatory Policy and Law

July 22, 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 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. Chairman:

The attached CTIA White Paper, "RECIPROCAL TERMINATION: A FOUNDATION FOR WIRELESS COMPETITION," stresses the important role the Commission has in making its determinations on interconnection. The Commission is responsible for establishing the foundations upon which wireless competition can evolve and strengthen over time (as did wired services generally). To fulfill that role, the Commission must address what is otherwise an insuperable barrier to LEC-CMRS competition: LEC interconnection rates. Reciprocal termination is the solution to this problem.

Once again, CTIA urges you to consider the attached information in reaching your decisions in the referenced proceedings.

Sincerely,

Randall S. Coleman

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LEC-CMRS Interconnection WHITE PAPER No. 7
First Series

RECIPROCAL TERMINATION: A FOUNDATION FOR WIRELESS COMPETITION

July 22, 1996

RECIPROCAL TERMINATION: A FOUNDATION FOR WIRELESS COMPETITION

WIRELESS IS A VIABLE LOCAL LOOP TECHNOLOGY

Throughout the world, wireless local loops have demonstrated that wireless technology offers significant advantages in updating or providing telecommunications services. In central Europe and South America, where older wired infrastructure predominates, wireless systems offer a cheaper and quicker means of providing modern telecommunications. In Africa and Asia and other nations with no installed base wireless systems offer the most modern and cost-effective basis for telecommunications.

THE NORTH AMERICAN OPPORTUNITY

In North America, the viability of wireless local loops has been debated. In high cost rural markets, the FCC has -- through Basic Exchange Telecommunications Radio services (BETRs) -- permitted wireless local loop systems because they are cheaper than wired systems. However, because current cellular airtime charges are too high to allow head-to-head competition with LECs, and because the federal government has, through the Rural Telephone Bank and other mechanisms, subsidized the deployment of wired landline systems in much of rural America, some critics have suggested that wireless local loop competition is infeasible.

This assertion misses two central facts about wireless local loop competition and the FCC's role. First, when wireless competes with LECs it will not look like today's cellular systems. Second, it is entirely inappropriate for the FCC to decide market structure and participants, particularly based on current events, costs and technologies. Rather, **the FCC is responsible for establishing the foundations upon which wireless competition can evolve and strengthen over time** (as did wired services generally). Stated differently, it is the job of the FCC to remove regulatory barriers to wireless competing with LECs -- not to decide whether or how wireless entrepreneurs will be successful in doing so.

Until very recently, the Commission appeared clearly committed to this role. In its decisions on the size of PCS license areas and spectrum, number portability, and the fixed-use of wireless services, the Commission has repeatedly used its authority (including Section 332) to implement its intent that wireless be able to compete directly with local wireline service.

Consumer, business user, and industry commentators have pointed out that the current LEC interconnection charges to CMRS customers are an insuperable barrier to wireless local loop competition. For some to argue against the Commission's "bill and keep" interconnection proposal "because wireless won't be able to compete anyway" is

an inappropriate position at best. And mobile wireless has already taken on a particularly central role in general communications in rural areas.

A MODEL FOR WIRELESS LOCAL LOOPS IN AMERICA -- (1) PATTERNS FROM THE PAST

Much as cable television initially constituted a service at the margins of broadcast television (*e.g.*, in areas of marginal reception), some wireless services are initially providing competition at the margins of wired communities. Thus, for example, wireless may constitute the technology of choice in areas where *exurban* growth has outstripped the capabilities of landline companies to deploy wired services.[1]

Likewise, much as cable television has become a medium for the delivery of more diverse forms of products and services, altering the nature of television overall, wireless local loops may constitute a redefining force in telecommunications more generally. Thus, existing wired landline facilities may be converted into data delivery media, while voice telephony shifts to wireless media.[2]

A MODEL FOR WIRELESS LOCAL LOOPS IN AMERICA -- (2) THE KEY IS CONTROLLING COSTS

Industry and financial market analysts like John M. Bensche of CS First Boston have concluded that **the key to CMRS competition with LECs is cost reduction, both by the industry itself, and by the Government reducing excessive interconnection costs.** Bensche stresses that: **"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."**[3]

As Bensche points out, there are two parts to that cost reduction: wireless carriers' own costs, and what they are forced to pay LECs for interconnection. The FCC itself stated in the *LEC-CMRS Interconnection NPRM*, **for CMRS to "begin to compete directly against LEC wireline services, it is important that the prices, terms, and conditions of interconnection arrangements not serve to buttress LEC market power against erosion by competition."**[4]

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[1] *See e.g., Order, In the Matter of Request of U S WEST Communications, Inc., for a Limited Waiver of Section 22.903 of the Commission's Rules,* DA 96-605, released April 17, 1996.

[2] This may be described as a "Negroponte switch" writ small, but all data applications will *not* migrate to wired networks. Wireless networks and media will become access points to the Internet and other networks.

[3] *Bensche-Marks: Wireless Communications*, Vol. 96-01, April 1, 1996, at p.2 (emphasis supplied).

[4] *LEC-CMRS Interconnection NPRM* at para. 2 (emphasis supplied)

THE BUSINESS SIDE OF WIRELESS LOCAL COMPETITION

Wireless carriers today generally compete only for a mobile market. In that separate market, airtime is priced efficiently. Even if current costs allowed it, offering unlimited wireless usage at anywhere near LEC local prices would overwhelm current network capacity. Getting to price competition with the LECs will require a major change and expansion of CMRS investment, but the key business pieces of it are already clear, and some are already being implemented:

More spectrum: PCS has more than tripled the amount of spectrum committed to CMRS.

Better spectrum usage: The various digital technologies will allow 4-10 times the amount of calls in the same spectrum as analog currently uses. The shift to digital is already in high gear.

Far more re-use of frequencies, i.e., much smaller cells: The first wave of this is moving fast; microcells will be the second wave required for competition with LECs in urban areas.

More competition: With seven or more wireless competitors in each market (which we will have in short order), the pressure will be on these competitors to expand out of mobile into the much larger local, fixed service market.

All of these factors mean that wireless can acquire and use spectrum and networks that allow them to compete head-to-head with LECs. Indeed, a variety of new PCS entrants have announced exactly that goal.[5] **But wireless carriers will have little incentive to charge at this goal if they will still be unable to compete because of inappropriate LEC interconnection charges.**

INTERCONNECTION: THE INSUPERABLE REGULATORY BARRIER TO LOCAL COMPETITION

The current LEC practice of applying an excessive surcharge on CMRS-originated traffic, while refusing to make reciprocal compensation (at any level) to CMRS providers, constitutes both a burden on the wireless user and a barrier to direct LEC-CMRS competition. Any reduction in current LEC-CMRS interconnection fees will be welcomed by current wireless customers. As importantly, such a reduction, and making interconnection payments reciprocal, will encourage the growth of the mobile industry. But this does not address the key issue of what level of interconnection payment will allow wireless to compete with the LECs for local service.

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[5] *See* Remarks of Daniel Riker, CEO of Pocket Communications, National Press Club, June 25, 1996.

The FCC is engaged in the crucial task of addressing the barrier of excessive LEC interconnection rates. It initially proposed an interim bill and keep mechanism; more recently a reciprocal per call charge of less than one cent is being discussed. One cent sounds small, but that would be a $7 per month surcharge on the competitive service provider's average bill.

Indeed, any per call charge represents a tax on competition. This is because in the initial stages of competition, the wireless provider will have relatively few local service customers and the LEC will have the vast majority. Most of the wireless company's traffic will originate or terminate on the LEC network, and bear the LEC interconnection "tax," while none of the traffic originating and terminating on the LEC network bears this tax.

Thus, all else being equal, it will be more expensive to use the new competitive service than to stay with the monopoly, since the LEC interconnection fee constitutes a special tax on the competitive network which doesn't apply to most calls on the LEC network.

Though it may be suggested that if actions are taken to equalize traffic flow, the wireless company will be getting a payment from the LEC which could be used to balance out payments (i.e., a back-door version of bill-and-keep), this misses the point.

The reality is that if the FCC sets a per call charge or formula by which such charges are to be derived, both LEC and CMRS providers will pass through the charges to consumers. These are costs that consumers can avoid if they don't subscribe to the wireless competitor or call its customers.

The central problem is that a usage sensitive charge system by itself discourages competition. Reciprocal termination, as the FCC proposed it in December, avoids all of these problems, along with the long delays that negotiations and state proceedings would entail.

A number of states have approved compromise agreements for LEC-CLEC interconnection, instituting "bill and keep" for a period and then adding an after-the-fact settlement in the event that the aggregate traffic/dollar flow is out -of-balance by more than a specified percentage. This stimulates competition in the near-term, avoids delay, is fair, and most importantly, does not impose a usage sensitive burden on new local service.

Wireless technology already constitutes a valuable service for over 40 million Americans, and holds out the promise of increased competition, and increased variety in telecommunications services for millions more Americans. Much as MCI was once viewed as an inconsequential and peripheral player in the long distance marketplace, so too do some critics view wireless telecommunications. But the FCC should remember: ***history is the story of experts who said it couldn't be done, just before someone did it.***