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October 29, 1997

EX PARTE

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

RE: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information (CC Docket No. 96-115)
&
Amendment of the Commission's Rules to Establish Competitive Service Safeguards for Local Exchange Carrier Provision of Commercial Mobile Radio Services (WT Docket 96-162)

Dear Mr. Caton:

On Tuesday, October 28, 1997, on behalf of AirTouch Communications, Inc., David Gross and I met with Dorothy Atwood, Tonya Rutherford, and Lisa Choi of the FCC's Common Carrier Bureau to discuss the above proceedings. Please associate the attached material with the above-referenced proceedings.

Two copies of this notice are being submitted to the Secretary in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me at 202-293-4960 should you have any questions or require additional information concerning this matter.

Sincerely,

Kathleen Q. Abernathy

Kathleen Q. Abernathy

Attachments

cc: Dorothy Atwood
Tonya Rutherford
Lisa Choi

AirTouch Communications, Inc.

Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information
CC Docket 96-115

and

Amendment of the Commission's Rules to Establish Competitive Service Safeguards for Local Exchange Carrier Provision of Commercial Mobile Radio Services
WT Docket 96-162

May 20, 1997

Brian Kidney
Kathleen Q. Abernathy

NEED FOR EFFECTIVE SAFEGUARDS

- Bell Operating Companies (BOCs) have continued control over essential bottleneck facilities.

- This creates a unique ability to leverage their wireline market power to advance wireless interests in instances where BOCs have in-region cellular or broadband PCS licenses.

- Other wireless competitors -- including new PCS entrants -- can not effectively compete absent FCC imposed safeguards that protect against discrimination and cross-subsidization.

- FCC must implement effective safeguards so that competitors can construct networks and offer competitive alternatives to BOC monopolies without BOC interference.

- CPNI, in particular, should be protected to ensure that customers of BOC and other LEC monopolies are not anticompetitively targeted by LEC affiliated CMRS or long distance carriers.

CRITICAL ISSUES

- The FCC should conclude that the goal of creating effective competitive safeguards is promoted by maintaining the following requirements of Section 22.903:

  - BOCs must not provide any CPNI to a wireless affiliate unless the information is made publicly available on same terms and conditions. (Section 22.903(f)).

  - The wireless affiliate has access to BOC facilities only on compensatory, arm's-length basis which is made available to competitors on same terms and conditions. (Section 22.903(a)).

  - R&D by BOC for wireless affiliate done only on a compensatory basis. (Section 22.903(c)).

  - All transactions between wireless affiliate and BOC must be in writing and available for FCC inspection. (Section 22.903(d)).

- The FCC should not revise the categories of "telecommunications services" to merge local exchange, interexchange, or CMRS buckets.

  - BOCs continue to retain monopoly power that no IXC or CMRS competitor can match.

CUSTOMER APPROVAL REQUIREMENTS

- The FCC has authority to determine type of prior customer approval that is in the public interest.

- In traditionally competitive markets, such as CMRS and long distance, carriers should be given flexibility regarding customer approval.

- In traditionally monopoly markets, such as local exchange, carriers should be held to a strict standard regarding the use of CPNI, obtained merely because customers had no alternative.

  - Customers should provide written authorization for their local telephone CPNI to be used in marketing competitive services.

    - The "Notice and Opt Out" mechanism proposed by some LECs fails to provide adequate information to the BOC customer.

  - LECs should not be able to use CPNI to target certain customers for the purpose of obtaining authorization to market other telecommunications services.

CUSTOMER APPROVAL REQUIREMENTS (Cont'd)

- CPNI authorization must be obtained in advance of -- not concurrent with -- solicitations for competitive service offerings.

- Until LEC markets are competitive, LECs should be required to seek authorization from their customers to release CPNI to all other competing telecommunications carriers as a prerequisite to their use of such information. This ensures that LEC affiliated enterprises do not obtain an anticompetitive advantage merely because of their affiliation.

- The joint marketing authorization for LEC/CMRS services, read together with Section 222, means that such joint marketing can be performed only after LEC customers have given authorization to use their CPNI.

TELECOMMUNICATIONS ACT OF 1996

- Adoption of Section 222 of the Telecommunications Act of 1996 does not invalidate effectiveness of Section 22.903(f) of the Commission's Rules.

- Congress was aware of the restrictions on BOC provision of cellular services because the BOCs lobbied for the elimination of all the Section 22.903 restrictions, but were only successful in obtaining relief from the joint marketing restriction in Section 22.903(e).

- In Section 601(d) of the 1996 Act Congress stated that Bell Operating companies could jointly market and sell CMRS in conjunction with telephone exchange service despite restrictions in Section 22.903 of the Commission's regulations.

- Significantly, Congress did not disturb any of the other restrictions in Section 22.903.

- Therefore, the Commission retains the jurisdiction and the discretion to determine what provisions of Section 22.903 continue to serve the public interest by promoting competition in the wireless arena.

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News

FOR IMMEDIATE RELEASE

Loss of Wireless Customers Reaching Epidemic Proportions, According to Andersen Consulting Study

CHICAGO, August 18, 1997 – The wireless industry is losing customers at epidemic proportions with annual rates of customer loss averaging 30 percent in the United States and 25 percent in Europe, according to a new study by Andersen Consulting. Called "churn," it is the rate at which wireless operators lose customers, thereby destroying company profits and decreasing shareholder value. Andersen Consulting's research was targeted at determining the cost of churn within select operators.

According to the study, market signs indicate that churn rates, which have reached extraordinarily high levels in most of the world's wireless markets, will continue to escalate for the foreseeable future. "For many CEOs, combating churn is becoming a number one priority because the return is so large," said Richard S. Siber, associate partner in Andersen Consulting's wireless consulting practice. "For example, reducing the rate of churn by one percentage point can boost company valuation of an average wireless operator by approximately $150 million."

Churn currently costs wireless operators a combined total of more than $4 billion each year in the mature markets of North America and Europe. The study notes that increased competition, attractive incentives and few barriers to switching carriers, are all encouraging customer defection. As market penetration increases, wireless service carriers are reacting by signing up marginal customers who spend less and are more prone to bad debt. This customer segment is also less loyal and will move more easily to other providers. These factors, as noted in the study, will easily push churn rates beyond 40 percent if not addressed.

Identifying Churn

"Customers aren't causing churn, wireless operators are," noted Siber. Andersen Consulting's study indicated that a European wireless provider found five percent of customers churning were defecting to a competitor. Yet, some 40 percent of those who were apparently defecting were actually switching to other packages offered by the same carrier. There are a variety of possible causes. Often dealers are given the wrong incentives, attracting sometimes undesirable customers.

"Churn frequently results from the way operators go to market. Often, for example, dealers actively encourage churn because they receive incentives for handset sales or customer subscriptions rather than for customer retention and value-added service," said Siber. The study emphasizes that before churn can be addressed, one has to determine what the specific causes of churn are for the company.

Andersen Consulting has identified four areas of churn:

- *Carrier-initiated Churn* - The carrier disconnects the customer for such causes as fraudulent usage, bad debt or business insolvency.
- *Competitor Churn* - Customers switch to a competitor.
- *Customer Migration or Rotation* - Customers switch networks within the same operator, for example migrating from an analogue to a digital network or switching tariffs on the same network. This often involves the wireless operator paying substantial reacquisition costs, a phenomenon currently seen in Europe and could, eventually, be seen in the U.S.
- *Subscription Cancellation* - The customer ends one or more subscriptions held with the carrier. This is frequently caused by "price shock," the customer's dismayed reaction to the first full bill.

Turning the Tide of Churn

To make the desired reduction in churn, operators will need to make fundamental changes in the way they acquire and service customers. Investing in retention is a good place to start. Twenty percent of retained customers currently generate more than 80 percent of the revenue. The study also uncovered that 30 percent of all churn happens in the first six months of service. Designing loyalty programs to ensure you are retaining the right customers at the right price is just one way to combat churn. "It's not about signing up as many customers as you can anymore. Operators must be more discriminating about the subscribers they activate," noted Silber.

"The wireless industry's approach to churn has, until now, appeared somewhat unsophisticated when compared to many other industries' customer acquisition and retention strategies," said Silber. "For example, the airline industry provides many instances of loyalty and affinity programs that deliver an enhanced service to high-potential customers whom the carrier wishes to retain."

Combating Churn

Andersen Consulting has identified a three-step approach to combating churn for wireless carriers that recognizes the complexity of the issues and deals with the issues accordingly. In summary,

1) **Diagnose the real cause of churn.** Why did customers leave? What did they do after disconnection? What impact did competitive activity have on their decision to leave?

2) **Develop a program.** Although there are many approaches, prioritize those that promise to offer the best and most sustainable returns. For instance, the best way to retain corporate accounts, for example, might be through enhanced customer service and redesigned account management processes.

3) **Implement the plan.** This is a complicated process dependent on achieving commitment at all levels of the organization. Dismantle dysfunctional acquisition policies that attract the wrong customer or reward the wrong behavior. Build customer loyalty. Combating churn is a long-term commitment that may require fundamental changes in areas such as organization addressing, process design, reporting sources, compensation or rewards.

"To make the most of this opportunity, many wireless operators will need to understand their customers and their customers' problems far more completely than they do today. Companies need to get their customer retention figures up and stop focusing on customer numbers rather than customer value," said Siber.

Andersen Consulting's Communications Industry Group serves most of the world's major carriers, including telecommunications providers, cable companies, wireless and satellite carriers, broadcasters, and Internet and interactive service providers. With a global presence of more than 6,000 communications industry experts, the Communications Industry Group is able to respond quickly and apply its deep industry knowledge to its clients' business objective and goals, delivering results regardless of a client's location or geographic reach. The Communications Industry Group enables its clients to achieve their business objectives through its expertise in: the development of visions and strategies; understanding clients' markets and customers; creating technologies and processes and managing change to support service activation and assurance, billing and customer care, and network deployment and development; and the management of the enterprise itself.

Andersen Consulting is a $5.3 billion global management and technology consulting organization whose mission is to help its clients change to be more successful. The organization works with clients from a wide range of industries to link their people, processes and technologies to their strategies. Andersen Consulting has nearly 49,000 people in 47 countries. Its home page address is www.ac.com.

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FACT SHEET

Highlights of the study include:

- Churn costs wireless operators a combined total of more than $4 billion each year in the mature markets of North America and Europe.
- In the U.S. wireless marketplace, strong evidence suggests that churn rates will be pushed beyond 40 percent in the near future.
- More than 30 percent of churn occurs within the first six months of service.
- Twenty percent of retained customers currently generate more than 80 percent of the revenue.
- Today's average payback period for acquiring a customer can take up to three years, especially for those subscribers buying through consumer and retail channels.
- In most developed markets, acquiring a new subscriber already costs an average of $300 to $400.

- By reducing the churn rate by five percentage points, the average wireless operator could increase shareholder value by 15 to 20 percent.
- In the case of a company with 1.5 million subscribers, 30 percent growth and 20 percent churn, a decrease of just one percentage point in the rate of churn can boost company valuation of an average wireless operator by approximately $150 million.

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