In the Matter of                                      )
                                                  )
Cellco Partnership d/b/a Verizon Wireless and     )
Netxlink Wireless, LLC, a Subsidiary of XO        )
Holdings, Seek FCC Consent to a Long-Term          )
De-Facto Transfer Spectrum Leasing                )
Arrangement Involving Local Multipoint            )
Distribution Service and 39 GHz Spectrum          )
                                                  )
Applications of XO Communications, LLC and        )
Verizon Communications Inc. for Transfer of       )
Control of Licenses and Authorizations            )
                                                  )
                                                  )

REPLY OF PUBLIC KNOWLEDGE

Phillip Berenbroick
Harold Feld
Public Knowledge
1818 N Street, NW
Suite 410
Washington, DC 20036
(202) 861-0020

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I. INTRODUCTION AND SUMMARY

Public Knowledge files this Reply in the above-captioned proceedings and in response to the Joint Opposition to Petitions to Deny and Comments (“Joint Opposition”) submitted by Verizon and Nextlink Wireless (“Nextlink”).¹ At present, the Federal Communications Commission (“Commission” or “FCC”) cannot approve either the Verizon Wireless/Nextlink spectrum lease arrangement proposal or the proposed Verizon/XO acquisition (collectively, the “Applications”) because the parties have failed to demonstrate that the transactions are in the public interest.

The record demonstrates that the Applications pose significant risks to competition, innovation, and consumer welfare in the wireless, business data services (“BDS”), and Internet transit markets. The Commission should thoroughly evaluate these potential harms. The Commission should also require detailed presentations of the benefits to competition and the public interest claimed by Verizon, Nextlink, and XO (collectively, “Applicants”). The record currently supports a rejection of the Applications or, alternatively, robust conditions that eliminate the incentives for and the likelihood of anti-competitive harm.

Lastly, the record overwhelmingly supports combining the two proposed transactions into one proceeding. The transactions are interrelated and have significant combined effects. Thus, the purported public interest benefits and threats the transactions pose to consumers and competition should be considered together. The Joint Opposition and the applications of Verizon Wireless and Nextlink (“Verizon/Nextlink Application”)² and Verizon Communications, Inc.

¹ See Joint Opposition of Verizon and Nextlink Wireless to Petitions to Deny and Comments, ² See Application of Cellco Partnership and Nextlink Wireless, LLC for Long-Term De Facto Transfer Leasing Arrangement, ULS File No. 007162285, Ex. 1 – Description of Transaction and Public Interest Statement (filed March 3, 2016).
and XO Holdings ("XO") (Verizon/XO Application")³ fail to substantively address the litany of combined effects raised by the commenters and petitioners.

II. THE VERIZON/NEXTLINK AND VERIZON/XO TRANSACTIONS POSE SIGNIFICANT HARM TO COMPETITION, INNOVATION, AND CONSUMER WELFARE.

The record clearly illustrates that approval of the Applications will likely cause substantial harm to competition, innovation, and consumers in the wireless, BDS, and Internet transit markets. The Commission should also consider the potential harm created by the loss of XO as an independent network for multihoming by enterprise broadband customers. These likely and potential harms to competition threaten to undermine the goals of President Obama’s recent Executive Order aimed at promoting more vigorous competition in the U.S. economy.⁴ The harms posed by the Applications also stand in contrast to Chairman Wheeler’s aim to promote “competition, competition, competition” in the telecommunications marketplace.⁵

A. The Applications Will Eliminate Competition in the Business Data Services Market.

The Verizon/XO transaction will eliminate current and future BDS competition between Verizon and XO in the mobile backhaul and the enterprise and wholesale markets, and the Verizon/Nextlink transaction threatens to eliminate competition in the wireless mobile backhaul

³ See XO Holdings and Verizon Communications, Inc. Consolidated Applications to Transfer Control of Domestic and International Section 214 Authorizations, WC Docket No. 16-70 (filed March 4, 2016).
market. Eliminating competition in these markets runs counter to the goal of the Commission’s ongoing BDS rulemaking, which recognizes that “[c]ompetition in this marketplace is uneven,” and that in some markets and for some services “competition remains stubbornly absent.”

Permitting Verizon to swallow XO will make it more difficult for the FCC to promote meaningful BDS competition.

The record contains broad agreement on the competitive harms the Applications are likely to cause. The Verizon/XO acquisition will eliminate XO as a current and future direct competitor in the BDS market. Additionally, the Verizon/XO combination will also eliminate XO as a critical provider of wholesale BDS, further stifling competition. Transbeam correctly points out that that in major markets like New York City, Philadelphia, and Boston, where Verizon is the incumbent local exchange carrier (“ILEC”), XO is a key supplier of wholesale BDS. Not only will permitting Verizon to acquire XO eliminate the direct competition from XO, it will also materially harm the ability of competitive BDS providers to serve their customers.

Further, the Verizon/Nextlink transaction will foreclose use of the Nextlink spectrum as a

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7 See e.g., Petition to Deny of INCOMPAS, WC Docket No. 16-70 at 4, 8-13 (filed May 3, 2016) (“INCOMPAS Verizon/XO Petition”); Comments of Transbeam, WC Docket No. 16-70 (filed May 12, 2016) (“Transbeam Comments”); Comments of Competitive Carriers Association, WC Docket No. 16-70, at 5-6 (filed May 12, 2016) (“CCA Verizon/XO Comments”); Comments of New America’s Open Technology Institute, WC Docket No. 16-70, at 1-3, 7-8 (filed May 12, 2016) (“OTI Comments”); Comments of Windstream Services, LLC, WC Docket No. 16-70, at 1, 3-6 (filed May 20, 2016) (“Windstream Comments”).


9 Transbeam Comments at 1-2.
potential source of wireless mobile backhaul, which has the potential to be an attractive,
competitive alternative to ILEC-provided BDS.\textsuperscript{10} The record also demonstrates that XO is a
particularly aggressive and innovative player in the BDS market. Eliminating an independent,
maverick competitor like XO will have even more acute negative impact on innovation,
competition, and pricing for BDS.\textsuperscript{11}

Combined, the Applications eliminate an astounding amount of current and future
competition and innovation in the BDS market. Windstream explains that this consolidation will
allow AT&T and Verizon to coordinate with one another and engage in anti-competitive pricing
against competitive providers.\textsuperscript{12} As a result, wholesale customers, enterprise customers,
government agencies, and non-profits are likely to pay higher prices for BDS and mobile
backhaul. Ultimately, these costs will be borne by consumers and taxpayers.\textsuperscript{13}

\textbf{B. The Verizon/XO Combination Will Eliminate Competition in the Internet
Transit Market.}

The record also demonstrates that permitting the Verizon/XO combination will
substantially affect the Internet transit market.\textsuperscript{14} Eliminating one of the few independent Internet
transit providers has the potential to raise costs for edge providers and content creators, which
will eventually be passed on to consumers.\textsuperscript{15} And, as DISH, New America’s Open Technology
Institute, and INCOMPAS explain, Verizon has been a particularly bad actor in the Internet

\textsuperscript{10} See DISH Petition at 19.
\textsuperscript{11} See INCOMPAS Verizon/XO Petition at 20-22; Windstream Comments at 2, 6-8.
\textsuperscript{12} Windstream Comments at 3-4.
\textsuperscript{13} See BDS FNPRM at 5 ¶ 10 (“Business data services impact the lives of consumers every day –
for example, every time they make a voice call on a mobile device or send a mobile text; when
they withdraw cash from an ATM; when they use their credit cards to shop.”); INCOMPAS
Verizon/XO Petition at 4-5.
\textsuperscript{14} See e.g., OTI Comments at 3-7; DISH Petition at iii, 3, 20-23; INCOMPAS Verizon/XO
Petition at 14-21.
\textsuperscript{15} See OTI Comments at 4-7
transit and interconnection context. Verizon has gone to great lengths to avoid complying with
voice interconnection agreements, led the way in charging edge providers anti-competitive
interconnection fees to reach its broadband Internet access service customers, and has incentives
to further raise its interconnection fees to advantage its own streaming video products.\(^\text{16}\)
Allowing Verizon to acquire XO will “further enhance Verizon’s incentive and ability to
implement harmful interconnection practices, harming other transit providers, edge providers,
and the seamless functioning of the Internet ecosystem.”\(^\text{17}\)

C. The Applications Threaten Competition and Innovation in the Wireless Market.

The Applications also pose significant threats to competition and innovation in the
mobile broadband market.\(^\text{18}\) Eliminating competition in the mobile backhaul market will likely
have spillover effects that slow the deployment of next-generation wireless networks, impede
competition, and raise prices for consumers.

The Commission has recognized the importance of backhaul to the provisioning of
wireless services, explaining backhaul “is critical to the ability of wireless carriers to expand and
operate their networks.”\(^\text{19}\) In the future, backhaul “will be even more critical as the advent of 5G
wireless drives the creation of the dense thicket of cell sites that will be needed to deliver high
bandwidth wireless services.”\(^\text{20}\) Recently, CTIA reported that Americans used 9.6 trillion
megabytes of data in 2015, more than double the record amount reported in 2014 and three times

\(^{16}\) See DISH Petition at 23, OTI Comments at 7, INCOMPAS Verizon/XO Petition at 14-19.
\(^{17}\) DISH Petition at 20.
\(^{18}\) See e.g., Petition to Deny of INCOMPAS, ULS File No. 0007162285, at 2, 7-9 (filed May 3,
2016) (“INCOMPAS Verizon/Nextlink Petition”); INCOMPAS Verizon/XO Petition at 3-4, 23-
26; Reply of INCOMPAS to Joint Opposition to Deny and Comments, ULS File No.
0007162285, at 1-2 (filed May 20, 2016) (“INCOMPAS Reply”); DISH Petition at ii-iii, 13-17,
19; CCA Verizon/XO Comments at 5-7; Comments of Competitive Carriers Association, ULS
File No. 0007162285 (filed May 3, 2016) (“CCA Verizon/Nextlink Comments”).
\(^{19}\) \textit{BDS FNPRM} at 3 ¶ 5.
\(^{20}\) \textit{Id.} at 3-4 ¶ 5.
more than 2013.21 Network densification will become increasingly important as data consumption and the number of connected devices continues to rise, making backhaul even more important to wireless networks.22 Additionally, backhaul is one of the key costs drivers in the price of wireless services, representing approximately thirty percent of operating costs for wireless carriers.23

Simply put, the importance of backhaul to wireless providers cannot be overstated, which is why the Applications pose a significant threat to competition in the wireless marketplace. As CCA points out, Verizon and AT&T remain the dominant backhaul providers, making competitive wireless carriers reliant on the parent companies of their largest rivals for this critical input. Because the BDS market is largely uncompetitive, ILEC pricing is unconstrained and competitive carriers are forced to pay outrageously high rates and agree to onerous terms and conditions for backhaul. As a result, consumers pay higher prices than they otherwise would if there was effective competition in the BDS market.24 Further, the high cost of backhaul causes competitive carriers and new entrants to postpone or decline to build out their networks, delaying or eliminating new competition and innovation in wireless products and services.25 The Verizon/XO transaction will cause further consolidation of the BDS backhaul market both within

22 See CCA Verizon/XO Comments at 5.
24 CCA Verizon/XO Comments at 6-7.
25 See OTI Comments at 8.
and outside of Verizon’s ILEC territory, increasing the control Verizon and AT&T have over the backhaul market and their ability to engage in anti-competitive tactics that stifle wireless competition.\textsuperscript{26}

The Verizon/Nextlink transaction also creates potential impediments to wireless competition and access to wireless mobile backhaul. The proposed Verizon/Nextlink lease agreements and options for purchase threaten to concentrate valuable millimeter wave (“mmW”) spectrum in the hands of the nation’s largest wireless carrier. The Commission should not allow the mmW bands to become dominated by the two largest wireless carriers as the sub-1-GHz bands are.\textsuperscript{27} The record shows that once Verizon Wireless controls the Nextlink local multipoint distribution service spectrum (“LMDS”) and 39 GHz spectrum, it will control the vast majority of LMDS spectrum in the nation’s top markets.\textsuperscript{28} DISH points out that the Nextlink spectrum is attractive for potential wireless mobile backhaul; however, the Verizon/Nextlink transaction will foreclose use of that spectrum as an alternative to AT&T and Verizon-provided BDS.\textsuperscript{29}

The record is also clear that the Nextlink spectrum could be an important input for new entrants in the mobile broadband market, and that this potential new competition will be eliminated if the Verizon/Nextlink transaction is approved.\textsuperscript{30} For example, earlier this year XO was exploring several competitive and innovative business plans for 5G for its LMDS and 39 GHz spectrum holdings.\textsuperscript{31} Approval of the Verizon/Nextlink transaction will extinguish the

\textsuperscript{26} CCA Verizon/XO Comments at 6. OTI Comments at 4.
\textsuperscript{27} CCA Verizon/Nextlink Comments at 5.
\textsuperscript{28} Notice of Ex Parte of Competitive Carriers Association; WC Docket No. 16-70, et al. at 2 (filed May 20, 2016) (“CCA Ex Parte”); DISH Petition at ii-iii, 2; DISH Reply at 7.
\textsuperscript{29} See DISH Petition at 19.
\textsuperscript{30} See INCOMPAS Verizon/XO Petition at 3-4, 23-26.
\textsuperscript{31} See Comments of XO Communications, LLC; GN Docket No. 14-177, et al.; at 5-7 (filed Jan. 28, 2016).
possibility of any future competition and innovation from XO. Other competitors will also be unable to use the Nextlink spectrum to compete against Verizon Wireless and AT&T.

III. VERIZON, NEXTLINK, AND XO HAVE FAILED TO DEMONSTRATE THAT THEIR APPLICATIONS SERVE THE PUBLIC INTEREST.

The Applicants have failed to meet the threshold requirement to demonstrate that the proposed transactions will serve the public interest. The Commission cannot approve these transactions unless the likely competitive and public interest harms are mitigated or outweighed by public interest benefits. The Applicants have failed to meet their burden.

The record clearly shows that the Applicants have failed to flesh out any real public interest benefits, acknowledge the likely competitive harms in the BDS market, define relevant product and geographic markets, provide economic analysis regarding the likely affect of the Applications, provide plans to mitigate competitive harms, replace the innovation XO brings to the BDS market, and demonstrate how its speculative public interest claims outweigh the likely competitive and public interest harms. The Applications and Joint Opposition are entirely deficient and demonstrate a complete disrespect for the roles the Commission and the public play in evaluating the proposed transactions. The Applicants appear to believe that whispering “5G” ad nauseum is sufficient. Further, the purported 5G-related benefits are not transaction specific.

32 DISH Petition at 15-17.
33 See 47 U.S.C. § 310(d); Applications of AT&T Inc. and DIRECTV For Consent to Assign or Transfer Control of Licenses and Authorizations, MB Docket No. 14-90, Memorandum Opinion and Order, 30 FCC Rcd 9131, 9139 ¶ 18 (2015) (“AT&T/DIRECTV Order”) (explaining that applicants bear the burden of demonstrating “that the proposed transfer of control of licenses and authorizations will serve the public interest, convenience, and necessity”).
34 See e.g., CCA Verizon/XO Comments at 7; INCOMPAS Verizon/XO Petition at 5-6; INCOMPAS Verizon/Nextlink Petition at 2, 6-7; INCOMPAS Reply at 1, 3-4; DISH Petition at 1, 6-9; DISH Reply at 3, 5-7; Reply of ViaSat, Inc., ULS File No. 007162285, at 1-2 (filed May 20, 2016).
Long before the Applications were agreed to, Verizon told investors it was preparing 5G field trials and promised to be the first U.S. carrier to deploy 5G.\(^{35}\)

At the very least, the Commission should require the Applicants to supplement their Applications with the data and information necessary for the FCC and the public to evaluate the likely benefits and harms posed by the transactions. After the Applicants have complied, the Commission should issue a Public Notice to request Petitions and Comments on the amended Applications. Currently, the Applications are so deficient that the Commission cannot approve them.

**IV. THE COMMISSION SHOULD CONSIDER THE VERIZON/NEXTLINK AND VERIZON/XO APPLICATIONS AND THEIR COMBINED EFFECTS IN A SINGLE PROCEEDING.**

The record overwhelmingly supports consolidation of the Applications into a single proceeding.\(^{36}\) Verizon has clearly attempted to structure the two transactions to avoid Commission review of the significant combined effects. However, the Applications were clearly negotiated together and purposefully filed separately to obscure the full and combined competitive effects from the Commission.\(^{37}\) Further, the Applicants have failed to substantively address the cumulative competitive and public interest harms the Applications pose, both in the Applications themselves and in their Joint Opposition.

The Joint Opposition argues that since the Commission can evaluate each transaction on its own merits, it must.\(^{38}\) However, the Applicants appear to inhabit a fantasy world where eliminating competitors in consolidated markets is good for competition, empty platitudes are

\(^{35}\) Statement of Fran Shammo, Verizon Communications Executive Vice-President and Chief Financial Officer, Verizon Communications Q4 2015 Earnings Call, at 10 (Jan. 21, 2016).

\(^{36}\) *See e.g.*, OTI Comments at 1, 3; INCOMPAS Verizon/XO Petition at 2; INCOMPAS Verizon/Nextlink Petition at 2-5; DISH Petition at 1, 4; DISH Reply at 9-11.

\(^{37}\) *See* OTI Comments at 1, 3.

\(^{38}\) *See* Joint Opposition at 10-12.
sufficient to make a public interest showing, and repeating “5G” as many times as possible creates a public interest benefit. In a world where neither transaction posed any harm, the Commission could evaluate them independently. But, because both transactions are likely to harm competition and the public interest in complementary and compounding ways, the Commission should consolidate its review to evaluate the totality of the Applications.

The combined effects are substantial. First, the Applications would prevent competitive wireless carriers from accessing critical fiber and wireless mobile backhaul in the largest U.S. markets.\textsuperscript{39} Second, concentrating XO’s wireless and wireline assets in Verizon’s hands threatens many of the same relevant markets, including wireless and fiber backhaul and 5G.\textsuperscript{40} Third, the harms from each of the transactions compound the harms from the other.\textsuperscript{41} The Commission cannot appropriately evaluate the likely competitive and public interest harms that each transaction poses, nor can it successfully attempt to remedy those harms, without accounting for the related and compounding harms from the other transaction.

V. CONCLUSION

Presently, the Applications are insufficient for the Commission to determine whether they will serve the public interest. As submitted, the Applications pose many likely public interest and competitive harms that the Applicants have not addressed. The purported public interest benefits are wholly unsupported by facts, data, and analysis, nor are they transaction specific. The Commission should require the Applicants to supplement their Applications so the public and the Commission can effectively evaluate the potential benefits and harms. The Commission should also consolidate its review of the Applications to account for their significant combined effects.

\textsuperscript{39} CCA \textit{Ex Parte} at 2.
\textsuperscript{40} See INCOMPAS Verizon/XO Petition at 2; INCOMPAS Verizon/Nextlink Petition at 2; DISH Petition at 4; DISH Reply at 9-10.
\textsuperscript{41} See INCOMPAS Verizon/Nextlink Petition at 5.
Respectfully submitted,

/s/ Phillip Berenbroick
*Counsel, Government Affairs*
PUBLIC KNOWLEDGE

May 27, 2016
DECLARATION

Public Knowledge’s Petition to Deny was prepared using facts of which I have personal knowledge or upon information provided to me. I declare, under penalty of perjury, that the foregoing is true and correct to the best of my information, knowledge, and belief.

Executed May 27, 2016

/s/ Phillip Berenbroick

Phillip Berenbroick
Counsel, Government Affairs
Public Knowledge
CERTIFICATE OF SERVICE

I, Phillip Berenbroick, hereby certify that on May 27, 2016, I caused true and correct copies of the foregoing Petition to Deny and Comments to be served on the following via electronic mail.

Katharine Saunders
Associate General Counsel
Verizon
1320 North Court House Road
9th Floor
Arlington, VA 22201
katharine.saunders@verizon.com

Brian N. Tramont
Adam D. Krinsky
Jennifer L. Kostyu
Wilkinson Barker Knauer, LLP
1800 M Street, NW
Suite 800N
Washington, DC 20036
btramont@wbklaw.com
akrinsky@wbklaw.com
jkostyu@wbklaw.com

Sarah Trosch
Verizon
1300 I Street, NW
Suite 400 West
Washington, DC 20005
sarah.trosch@verizon.com

Angie Kronenberg
Chief Advocate & General Counsel
INCOMPAS
1200 G Street, NW
Suite 350
Washington, DC 20005
akronenberg@incompas.org

Lisa R. Youngers
Vice President and Asst. General Counsel,
Federal Policy and Advocacy
XO Communications, LLC
Nextlink Wireless, LLC
13865 Sunrise Valley Drive
Herndon, VA 20171
lisa.r.youngers@xo.com

Thomas W. Cohen
Edward A. Yorkgitis, Jr.
Kelley Drye & Warren LLP
3050 K Street, NW
Suite 400
Washington, DC 20007
tcohen@kelleydrye.com
cyorkgitis@kelleydrye.com

Stephen J. Berman
Lawler, Metzger, Kenney & Logan, LLC
2001 K Street, NW
Suite 802
Washington, DC 20006
sberman@lawlermetzger.com

Jeffrey H. Blum
Senior VP & Deputy General Counsel
Alison Minea
Director & Sr. Counsel, Regulatory Affairs
Hadass Kogan
Corporate Counsel
DISH Network Corporation
1110 Vermont Avenue, NW
Suite 750
Washington, DC 20005
jeffrey.blum@dish.com
alison.minea@dish.com
hadass.kogan@dish.com
Rebecca Murphy Thompson
General Counsel
Elizabeth Barket
Law & Regulatory Counsel
Competitive Carriers Association
805 15th Street, NW
Washington, DC 20005
rthompson@ccamobile.org
ebarket@ccamobile.org

Christopher Murphy
Associate General Counsel,
Regulatory Affairs
VIASAT, INC.
6155 El Camino Real
Carlsbad, CA 92009
christopher.murphy@viasat.com

John P. Janka
Elizabeth R. Park
Latham & Watkins LLP
555 Eleventh Street, NW
Washington, DC 20004
john.janka@lw.com
elizabeth.park@lw.com

/s/ Phillip Berenbroick

Phillip Berenbroick
Counsel, Government Affairs
Public Knowledge