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February 28, 2002

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

William F. Caton, Acting Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: Wireless LNP Forbearance: WT Docket No. 01-184
Analog Standard: WT Docket No. 01-108
Notice of Ex Parte Presentations

Dear Mr. Caton:

On February 27, 2002, Terry Addington, President of the Rural Cellular Association ("RCA"), John McMillan, Chairman of RCA's Government and Regulatory Committee, and counsel to RCA, Stephen Kraskin and John Kuykendall of Kraskin, Lesse & Cosson, LLP, met with Commissioner Copps and his legal advisor, Paul Margie, to discuss the referenced matters.

RCA representatives provided an overview of the challenges faced by small and rural wireless carriers, and provided as background their own companies' experiences (*see* Attachments 1 & 2). Messrs. Addington and McMillan underscored the commitment of RCA member companies to implementing the Commission's public safety and national security mandates. RCA representatives also described the challenges faced by small and rural wireless carriers as they seek to implement these mandates while operating in a competitive environment.

RCA representatives urged the Commission to forbear from imposing wireless local number portability, noting that, in addition to implementing E911, small and rural carriers are diligently working to implement CALEA and TTY, which have implementation deadlines in 2002, as well as continuing to build out and improve their networks. The representatives emphasized that the additional increased costs and administrative burdens imposed by implementation of wireless local number portability would not only hinder these efforts but significantly outweigh any benefits to carriers or consumers.

RCA representatives also urged the Commission to maintain the analog standard as a requirement for cellular providers and to consider spectrum allocations which make it possible for smaller carriers to participate meaningfully in the auction process. RCA also provided a summary of issues discussed with Wireless Telecommunications Bureau staff at a meeting held January 7, 2002 (*see* Attachment 3).

Very truly yours,

Sylvia Lesse

cc: Commissioner Copps
Paul Margie

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Carolina West Wireless
Small Rural Wireless Carrier

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

- B-side cellular carrier
- Markets – one and a third RSA's
  - NC RSA 3
  - NC RSA 2B1 (RSA split with Alltel, US Cellular)
  - Northwest corner of NC bordering TN, VA
- 235,000 pops
- 6 counties
- 94 pops per sq. mile
- Largest town Mount Airy (Andy Griffith, Mayberry RFD fame)
- Economy of agricultural, furniture, some textiles, light manufacturing
- Owned by three local LEC cooperative corporations
  - Skyline Telephone ~ 30,000 access lines
  - Surry Telephone ~ 14,000 access lines
  - Wilkes Telephone ~ 8,000 access lines
- Competition
  - Version (RSA 2B1 A-side cellular)
  - US Cellular (RSA 3 A-side cellular)
  - Sprint
  - Nextel
  - Cingular
- 8 local sales and service offices in the six counties plus 4 agent sales offices
- Business started September 1991 with 9 analog cell sites
- Today – 47 cell sites and 58 employees
- All cell sites are now TDMA digital as well as analog
- Debt today ~ $15M
- Currently in loan application process to borrow $28 M for TDMA conversion to CDMA or GSM as well as additional cell sites
- Normal year-to-year capital budget ~$2M to $3M per year
- Last year capital budget was $13M
- This years capital budget is $9M
- 100% of profits returned to capital spending for improved RF coverage & capacity
- With competition
  - Margins have decreased
  - Churn started to increase
  - Pricing decreased

Impact of Mandates & Regulation on Carolina West Wireless

- Analog Standard
  - Today 50% of customers are analog; 50% are digital
  - Analog is the primary roaming vehicle for both analog and digital customer base
  - The AMPS standard is needed to provide nationwide roaming for the rural customers. It is also needed for nationwide roaming for the MSA customers as well in rural markets. Most MSA customers roaming on the Carolina West network do so in analog mode.
  - If the AMPS standard is done away with both rural and MSA customers will lose the ability to roam easily and cheaply
  - FCC should require all cellular carriers to maintain the AMPS standard in practice as well as spirit (Some carriers have indicated they will maintain only one analog radio per cell site – this is not supporting the standard
- CALEA
  - Cost to support CALEA < $50K
  - Never had a request for a wiretap since 1991
- E-911
  - Carolina West Phase I deployment completed summer 2001
    - Only NC carrier to be fully Phase I compliant (Currently NC @ 60% Phase I compliance)
  - Phase II requested by 3 of 8 PSAP's (remaining 5 indicate they will request in near future)
  - NC has cost recovery plan – probably not sufficient for entire state
  - Handset solution not available for TDMA carriers
  - Only one network location vendor (Grayson Wireless) has responded to multiple requests for information, proposals, and quotations
  - Estimates of Phase II cost at ~ $1M based on 36 cell sites
  - We are in the process of attempting to negotiate a contract for both network location equipment and location database administrator
- TTY
  - Nortel TTY solution switch software installed only last week

- WLNP
  - Churn approximately 20% per year with customers freely choosing to change carriers
  - No customer has requested to port their number
  - What they DO request
    - Less dropped calls
    - Less fast busies (more channel capacity so call goes thru on 1st try)
    - More coverage
    - Lower prices; more minutes; free roaming & long distance
  - Our estimate of first year cost of WLNP is between $650K and $770K. (This is 2 to 3 cell sites we will not build.) On-going operational cost estimated to be $100K to $200K
  - FORBEARANCE ON WLNP OR MINIMUM OF TWO YEAR DELAY IS NEEDED
- Cumulative Impacts
  - Increased competition and mandates are impacting small carriers
    - Prices are being lowered to meet competition
    - Capital spending in increasing to meet mandates and service demands
    - Churn is increasing
    - Roamer revenues are decreasing
    - Profit margins are decreasing
  - Concerns
    - Our owners have commitment to serve rural areas. With decreasing margins it is becoming more difficult to cost justify new cell sites in rural low population areas.

THE FIRST CELLULAR STORY
A TYPICAL SMALL/RURAL CARRIER

- B-side cellular carrier
- Covers two RSA's
  - Illinois RSA 8&9
    - Sets between St. Louis MSA and Evansville MSA
    - Roughly the southern 5th of the State of Illinois
  - 488,000 pops
  - 24 Southern Illinois Counties
  - 51 pops per square mile
  - Largest city is Carbondale @ approx. 30,000 pops
  - Primarily agricultural based economy with some energy, light manufacturing and service
- Owned by seven local Independent LEC's
  - Largest = +30,000 access lines
  - Smallest = 600 access lines
- Currently four competitors
  - Verizon
  - AT&T SunComm
  - Sprint
  - Nextel
- Opened doors for business in December of 1990 with 9 analog cell sites and three employees
- Today we operate with a current count of 76 cell sites and 160 employees

- Most sites are analog and all sites have either been built as, or overlayed with, digital
    - CDMA
- To finance digital build we had to borrow approx. $30M
- Total debt increased to almost $40M
- Margins grew over time into the high 30% range
- Normal year to year capital budgets were around $4M per year
- When additional competition arrived in 2000
    - Margins began to deteriorate
        - 8% from 2000 to 2001
    - Churn rose
        - 35% increase in churn just in one year
    - In 2001 we had the first layoffs in our history
        - 12% of our workforce
    - BUT, the customer has benefited
        - Our digital buildout probably would not have happened without pending competition
        - Prices have decreased by 70% since 1999
            - We introduced an unlimited amount of minutes per month
                - Originally at $34.95
                - Now priced at $39.95
                - Effective rate of $.04/min
            - Customer has free LD in home service area
            - And is allowed to roam
        - Customer service resources were added

- Retail and service outlets were opened to communities as small as 3000 pops

THE IMPACT OF MANDATES AND REGULATION ON FIRST CELLULAR

- The analog standard
  - Today 40% of our customer base is digital.
  - 60% is analog.
  - Because of the multiple digital technologies the analog standard is our primary roaming vehicle for both the analog base and the digital base (dual mode handsets).
  - Without a nationwide network, the amps standard is needed to provide nationwide roaming for the rural customer.
  - Our analog network remains the primary roaming network for nationwide carriers that are our roaming partners.
  - Because of all the diverse digital standards, if large carriers do away with the amps standard, the rural customer, and many of the urban customers, will lose the ability roam easily and cheaply.
  - If the standard remains, large carriers should not be allowed to beat the system by just leaving one channel available per site. The customer must be supported.
  - **THE AMPS STANDARD MUST BE SUPPORTED INTO THE FUTURE!**

- Spectrum
  - Just because we are small does not mean we do not need additional spectrum.
  - Our "unlimited" airtime strategy eats up available spectrum.
    - MOU's have gone from 150 to over 900
    - We are already deploying second carrier and we have only had this pricing out a little over one year and we have yet to deploy any data services
    - All available network capital in 2002 will go to the deployment of capacity enhancing network infrastructure
  - In order to support this strategy on a continued basis and to be able to roll out more advanced services, more spectrum is needed.
  - Small and rural carriers can and do offer service at least equal to, and in many cases, better than, large nationwide carriers.
  - We offer competitive choices and improved service for the customer that the large carriers do not.
    - Our "unlimited" airtime strategy is unique to us
    - We are the only carrier that offers local customer service
    - We are the only carrier that has customer service people in local stores
    - We are the only carrier that offers repair and installation services

        - **SPECTRUM IS NEEDED IN BLOCKS THAT SUPPORT SMALL AND RURAL CARRIERS TOO**
- CALEA
    - The "normal" capital budget for First Cellular is around $4M annually.
    - Our cost to implement CALEA for just the supporting hardware is $600,000
        - 13% of our capital budget just for CALEA
    - Since 1990 we have never had one request for a wiretap
    - Yet, we are having to deploy a platform that supports over 100 simultaneous wiretaps
- E-911
    - Our E-911 phase I deployment is almost complete.
    - Phase II deployment will cost as much as $3.8M
    - Illinois has a cost recovery mechanism in place
    - Many states don't
    - We have yet to get a network based location vendor to come and present their product to us. We have asked them to come but we are too small for them to consider us important.
    - We have received our first phase II request
    - How can we deploy a system if we cannot even get a vendor to present their product to us, let alone us select a product?
- LNP
    - With churn over 20% per year and rising, customers are freely choosing to change carriers
    - No customer is requesting to port their number

- What they are requesting is:
  - More in-building portable grade coverage
  - Less dropped calls
  - Lower and lower prices
- We estimate the operational impact of LNP to cost approx. $300,000 annually
- We estimate potential revenues to be no more than $80,000 annually
- **WE NEED FORBEARANCE ON LOCAL NUMBER PORTABILITY**

- "Mandate Mania"
  - Instead of concentrating on bringing value added products and services to the consumer, we are concentrating on mandates
  - CALEA, E-911, and LNP are all required in 2002
- Additional ramifications for the carrier
  - In order to insure mandate compliance and proper installation and implementation First Cellular has had to retain management personnel while laying off customer contact personnel
    - One full time manager @ $75,000
    - One switch tech @ $45,000
  - Due to borrowing constraints (debt to earnings leverage ratio) additional capital cannot be deployed
    - CapEx devoted to mandates and the effects of lower operating margin has led to the reduction of customer enhancing products and services
      - 8 quality and coverage cell sites cut from the 2002 budget

- 5 site relocations for coverage improvement cut from the 2002 budget

- Wireless data infrastructure cut from the 2002 budget
- SMS platform cut from the 2002 budget
- Voice Activated Dialing platform cut from the 2002 budget

- In Closing
  - Competition is flourishing in the rural marketplace
  - The small local carrier can and does offer enhanced value to the local customer
  - Increased competition is naturally impacting the financial results of the small carrier
    - Lower prices
    - More CapEx
    - Higher churn
    - Compressed roaming margins
    - Lost roaming revenues
  - Mandates are impacting the ability of the small carrier to focus on the market and further limiting its financial viability and deployment of quality enhancements, new products and new services
  - Issues like spectrum and the analog standard stand as further risks to the future of the small carrier

RCA

- 91 CARRIER MEMBERS
- Approx. 25,000,000 POPS
  - Smallest
    - Mid-Rivers Cellular
      - 10,000 pops
  - Largest
    - Midwest Wireless
      - 3.1M pops

RCA ISSUES

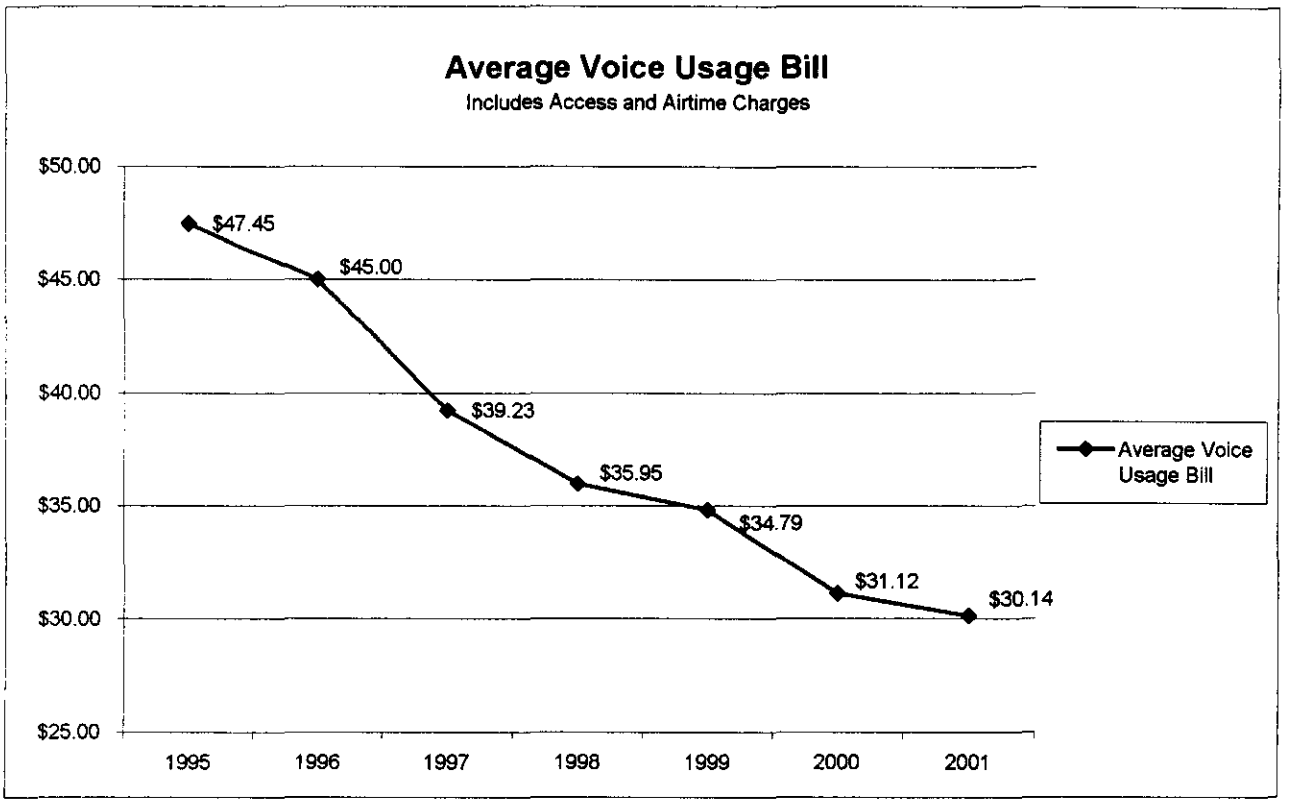
- Spectrum
  - Small carriers need spectrum too
  - Can not compete in large geographic block auctions with large carriers
  - There must be spectrum made available in geographic block auctions that cover rural system needs
- The Analog Standard
  - Raymond James & Associates say there are over 2 million rural cellular customers
  - This would be the 10th largest carrier in the country
  - The main default roaming technology for all these customers is the analog network

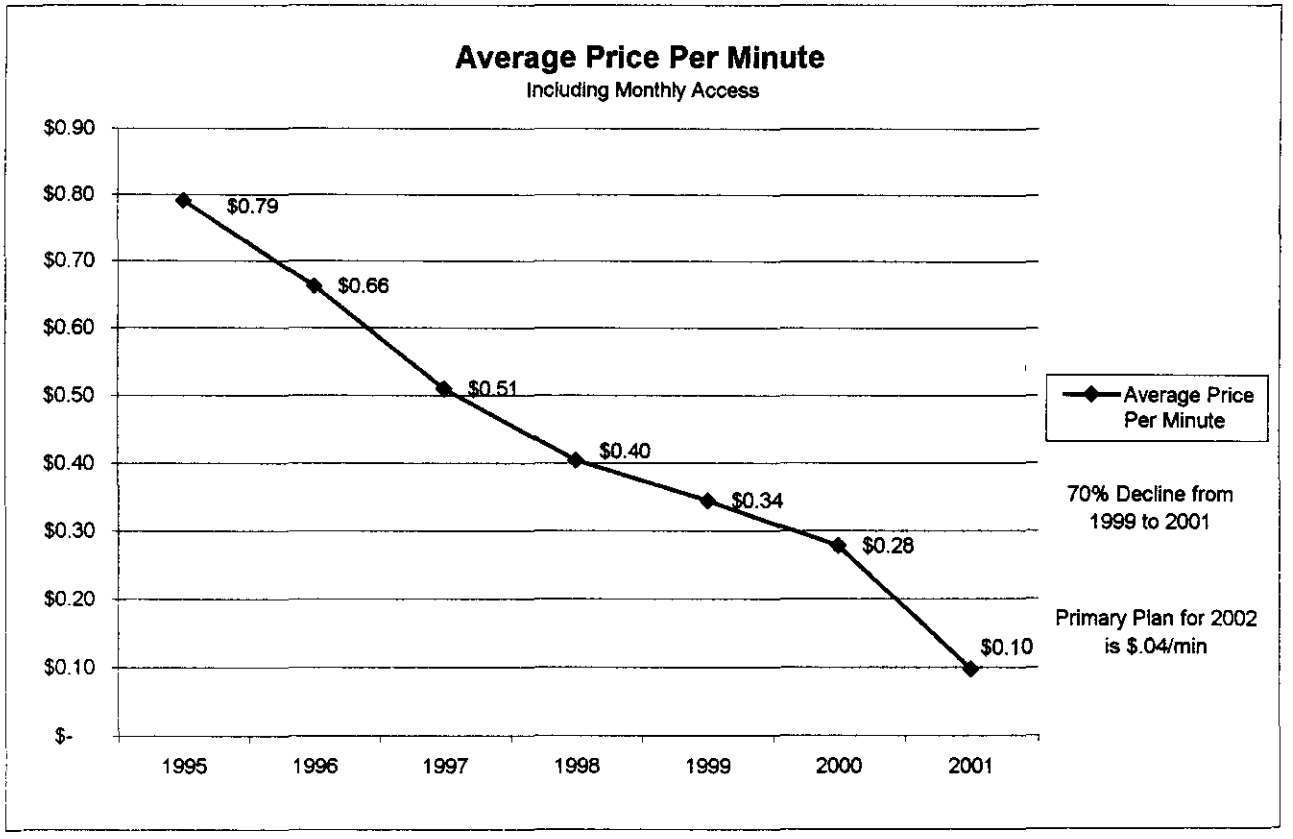
- The analog standard must continue to be FULLY supported

- E-911
  - Network based technologies are prohibitively expensive for small and rural carriers
    - Some vendors quoting more than $50,000 per site
    - Many states do not have cost recovery
  - Network based situations won't work in some rural markets due to the way the network is designed
    - Rural networks are designed with sites much farther apart than urban networks
  - In some situations, handset based or hybrid technologies are not viable solutions for many rural markets due to the fact that systems are designed for 3 watt phones rather than handheld .6 watt phones
  - Handset solutions that are initially made available are to fill orders for large carriers so smaller and rural carriers won't be able to deploy at the same time as the technology is made available
  - As in the case with First Cellular, many vendors won't even talk to small carriers at this time
  - Waivers may be needed to deploy E-911 correctly and accurately in rural service areas
- Wireless Local Number Portability
  - Competition in the CMRS market is flourishing despite the lack of CMRS LNP requirements

- Small wireless carriers limited financial resources are better spent on network construction and marketing
- Complete forbearance is appropriate. Alternatively, the Commission should at least consider a two year delay due to the need to implement CALEA, E-911 and TTY during the same time frame

- Pooling
  - RCA supports number conservation
  - The MIN/MDN split is expensive and will require significant resources
    - The cost of splitting the MIN/MDN could be $2 to $3 Million dollars for those small carriers that must purchase an entire platform upgrade in addition to software
  - The MIN/MDN separation was designed to support LNP and was not designed to support only pooling
  - Other options could be employed to conserve numbers that would be less costly and less difficult to implement
    - Example
      - LRN-like routing as set forth in Mid-Missouri engineering statement of 10/22/01


Average Voice Usage Bill
Includes Access and Airtime Charges
$50.00
$45.00
$40.00
$35.00
$30.00
$25.00
$47.45
$45.00
$39.23
$35.95
$34.79
$31.12
$30.14
1995
1996
1997
1998
1999
2000
2001
Average Voice Usage Bill


Average Price Per Minute
Including Monthly Access
$0.90
$0.80
$0.70
$0.60
$0.50
$0.40
$0.30
$0.20
$0.10
$-
$0.79
$0.66
$0.51
$0.40
$0.34
$0.28
$0.10
1995
1996
1997
1998
1999
2000
2001
Average Price Per Minute
70% Decline from 1999 to 2001
Primary Plan for 2002 is $.04/min

RURAL CELLULAR ASSOCIATION
February 2002

The Commission Should Again Exercise its Forbearance Authority and Permanently Forbear From Enforcing Local Number Portability on CMRS Providers

Competition in the CMRS market is flourishing despite the lack of CMRS local number portability requirements.

Small wireless carriers' limited financial resources are better spent on network construction and marketing.

Small and rural carriers are committed to implementing the Commission's mandates which advance public safety and national security such as CALEA, E911 and TTY.

The additional increased costs and administration burdens imposed by implementation of wireless local number portability would not only hinder these efforts but significantly outweigh any revenue gained from new subscribers.

Complete forbearance is appropriate. Alternatively, the Commission should at least consider a two year delay.

The Commission Should Continue to Recognize that Small and Rural Wireless Companies Face Distinct Challenges that Larger Wireless Companies Do Not Face in Seeking to Implement E911 Services

In states where there is no cost recovery available for carriers, network-based E911 solutions are prohibitively expensive for small and rural carriers. Even in states where cost recovery is available, it is not known how much of the carrier's costs associated with Phase II will be covered nor how long it may take for a carrier to receive reimbursement;

In many rural areas, network-based E911 Phase II technologies are not technically feasible due to system design;

In some situations, handset-based or hybrid technologies are not viable solutions for most rural markets due to the fact that systems are designed for 3 watt phones rather than handheld .6 watt phones;

Many vendors of E911 Phase II solutions do not respond to inquiries made by small and rural carriers;

Because manufacturers of handset-based solutions fill the orders of large carriers first, small and rural carriers choosing handset-based or hybrid solutions will not be able to deploy such solutions at the same time as the large carriers.