BENNET & BENNET PLLC

Law Offices of Bennet & Bennet, PLLC

Maryland
4350 East West Highway, Suite 201
Bethesda, Maryland 20814
Tel: (202) 371-1500
Fax: (202) 371-1558
www.bennetlaw.com

District of Columbia
10 G Street NE, Suite 710
Washington, DC, 20002

Caressa D. Bennet
Michael R. Bennet
Gregory W. Whiteaker
Marjorie G. Spivak*
Donald L. Herman, Jr.
Kenneth C. Johnson‡
Howard S. Shapiro
Daryl A. Zakov⊥
Robert A. Silverman
Anthony K. Veach#

Of Counsel
Andrew Brown✧

*Admitted in DC & PA Only
‡Admitted in DC & VA Only
⊥Admitted in DC & WA Only
✧Admitted in DC & ME Only
#Admitted in DC & FL Only

March 9, 2011

Via Electronic Delivery

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW, TW-A325
Washington, D.C. 20554

Re: Reexamination of Roaming Obligations of Commercial Mobile Radio Service Providers and Other Providers of Mobile Data Services
WT Docket No. 05-265

Dear Ms. Dortch:

The Rural Telecommunications Group, Inc. ("RTG") respectfully submits this letter and attachment in reference to the above-captioned proceeding currently before the Federal Communications Commission ("FCC" or "Commission"). JSI Capital Advisors, LLC ("JSI"), a boutique investment bank focused on the communications, media and information technology industries, has recently released a report pertaining to the matter of data roaming.[1] Specifically, the *JSI Report* examines the economic forces driving the need for automatic data roaming and discusses what an ideal pricing structure of reasonable data roaming rates might look like. As discussed below, the report depicts a vast gulf between the data roaming rates currently charged by AT&T Mobility and Verizon Wireless and those that would be considered fair and reasonable.

JSI's analysis of data roaming begins with the general observation that "the wireless industry has become bifurcated into two classes" consisting of the "wireless haves" (represented by AT&T Mobility and Verizon Wireless) and the "wireless have nots" (represented by all the other service providers).[2] JSI also notes that the "rift between the haves and the have nots is going to have an increasingly negative impact on competition in the wireless industry."[3] To support this observation, JSI reiterates several points repeatedly mentioned by RTG and other small carriers and the associations representing them in previous filings in this docket. First, AT&T and Verizon Wireless have until recently depended themselves on roaming to offer a nationwide footprint, but

[1] "The Case for Automatic Data Roaming," *The ILEC Advisor: Communications Industry Trends, Strategies and Perspectives*, Volume 17, Issue 2, Dave Selzer and JSI Capital Advisors (released February 2011) ("*JSI Report*").

[2] *JSI Report* at 2.

[3] *Id.* at 2.

since that need has evaporated through carrier consolidation, they are now actively limiting the ability of other carriers to roam on their own networks. Second, reducing AT&T and Verizon's competitors' ability to offer a nationwide footprint increases the attractiveness of their own product and service offerings. Third, because the wireless sector is now driven by data services, it makes financial sense for AT&T and Verizon to "undertake actions designed to maximize their share of data revenue" as well as "take actions specifically designed to limit the ability of their competitors to generate data revenue."[4] JSI comes to the conclusion that "because of the discord surrounding data roaming, it is clear that the current competitive environment is now working against the market for roaming services."[5] RTG has consistently argued these very same points and reached the very same conclusion.

The remainder of the *JSI Report* is devoted to analyzing what rates would constitute something that is "fair and reasonable." In order to calculate what may be considered a reasonable data roaming rate, JSI has first created a matrix that shows revenue margins for a Voice Minute of Use ("MOU") and pegs that wholesale roaming rate at a corresponding Cost of Production for that MOU. This matrix for the cost of voice roaming is based on industry averages existing today. In lay terms, the matrix visualizes the following concept: *if it costs a wireless carrier x to produce a MOU and that carrier wants to produce a revenue margin of y, then it must offer a roaming rate of z to other carriers for each roaming MOU*. For example, if it costs a carrier $0.01 to produce one MOU and that carrier wants an 800% revenue margin, it must offer its voice roaming at $0.90 per MOU.

JSI's internal modeling indicates that the cost to a carrier of producing one megabyte of use ("MbOU") for data roaming is in fact *less* than the cost of producing a MOU for voice roaming. By simply substituting data values for voice values in the matrix referenced above, JSI was able to calculate what might constitute "fair and reasonable" data roaming rates. The conclusion JSI reached was that in order to maintain similar rate-of-returns (between 500% and 1000% margins), a carrier's pricing should be between $0.027 and $0.057 per megabyte. Based on a sampling of existing commercial data roaming rates between numerous RTG members and both AT&T Mobility and Verizon Wireless, the existing rates are in many cases up to 50 times (or over 3,000%) higher than what is considered fair and reasonable!

The *JSI Report* is further proof (this time from an un-biased industry observer) that not only is the mobile wireless marketplace declining into a *de facto* duopoly, but also that data roaming rates, even when available in the first place, are so excessively high as to be categorized as unfair, unreasonable and the antithesis of true marketplace competition.

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[4] *Id.* at 3.

[5] *Id.* at 4.

Accordingly, RTG implores the Commission to act on the petition for rulemaking to extend automatic roaming obligations to data services.

Respectfully submitted,

Rural Telecommunications Group, Inc.

By: */s/ Caressa D. Bennet*
Caressa D. Bennet
General Counsel

Attachment

cc (via email):

Chairman Genachowski
Commissioner Copps
Commissioner McDowell
Commissioner Clyburn
Commissioner Baker
Rick Kaplan
Edward Lazarus
Zac Katz
John Giusti
Angela Giancarlo
Louis Peraertz
Charles Mathias
Sharon Gillett
Jim Schlichting
Brad Gillen
Ruth Milkman
Paul Murray
Nese Guendelsberger
Patrick DeGrabe
Peter Trachtenberg
Austin Schlick

Attachment

Excerpt from
JSI ILEC Advisor – Communications Industry Strategies, Perspectives and Trends
Volume 17, Issue 2
(February 2011)
"The Case for Automatic Data Roaming"
By: Dave Selzer

JSI CAPITAL ADVISORS

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Communications Industry Trends, Strategies and Perspectives

Volume 17, Issue 2 February 2011

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In This Issue

The Case for Automatic Data Roaming

The Ties that Bind are Broken

(Posted by Dave Selzer on Thursday, February 10, 2011)

In April of last year the FCC issued an Order on Reconsideration under the tasty heading of "Reexamination of Roaming Obligations of Commercial Mobile Radio Service Providers and Other Providers of Mobile Data Services." Where they get this stuff from I will never know, but in that document the FCC issued a Notice of Proposed Rulemaking (NPRM) that would create obligations for data roaming that are similar in scope to those that now exist for voice roaming.

Additionally, in the Discussion section of the Order on Reconsideration, I found one of the FCC's comments of particular interest. It reads:

"*We stand ready, however, to the extent necessary, to resolve roaming disputes including whether a particular carrier's request is reasonable, or whether a would-be host carrier has met its obligation to provide roaming on reasonable and not unreasonably discriminatory term and conditions.*"

Presumably, the FCC's involvement would include a willingness to resolve disputes that are based on price, which is really the heart of the issue with regard to commercial data roaming. If the FCC is truly willing to become involved in the dispute resolution process then this comment signals a sea change in the FCC's traditional role with respect to roaming services.

In this blog post I try to accomplish two things: First, I examine the economic forces that are driving the need for Automatic Data Roaming rules and second, I provide my take on what I believe a pricing structure for data roaming should look like.

The fact is the wireless industry has become sharply bifurcated into two classes. There are the wireless haves, represented by a population of two, and the wireless have nots, represented by all the other service providers. In my opinion, this rift between the haves and the have nots is going to have an increasingly negative impact on competition in the wireless industry.

Cellular License Concentration of AT&T and Verizon Wireless

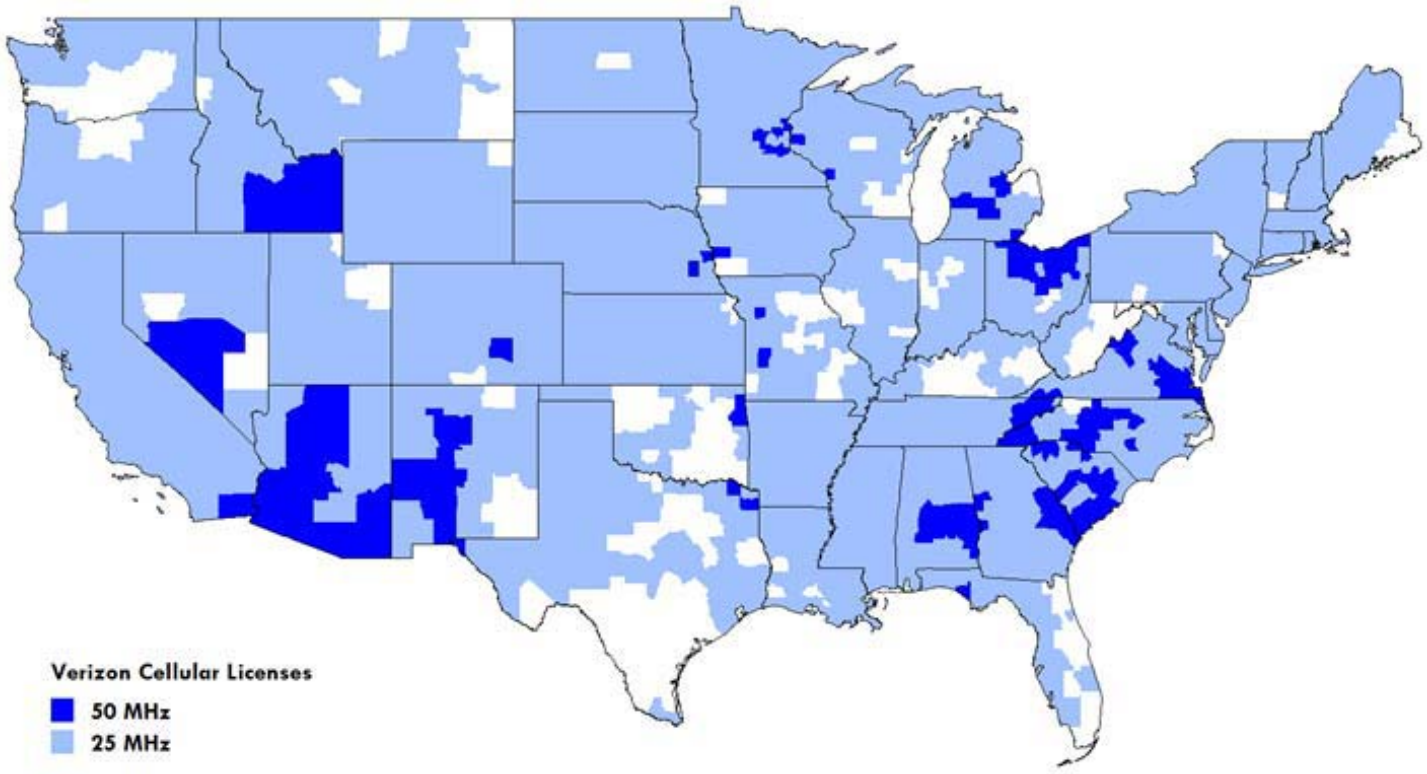
	Total Licensed POPs (millions)				Percent of
Cellular 850 Spectrum	**A**	**B**	**A•B**	**Total**	U.S. POPs
Verizon Wireless	54.1	179.1	32.0	265.2	88.8%
AT&T Wireless	170.5	49.7	21.9	265	81.0%
Total	224.6	228.8	53.9		
Percent of U.S. POPs	75%	77%	18%		

Notes: Analysis based on licensed cellular spectrum covering the contiguous United States.

The most visible example of the struggle between the two factions is highlighted by the ongoing battle over the establishment of automatic data roaming obligations. Obviously, there are significant economic and industrial implications associated with this issue, the resolution of which is one of the key issues of this decade for the wireless industry. Whatever direction the FCC chooses to take with regard to automatic data roaming, it is likely that the final word will be had by the judiciary, the national legislature or both.

As we all know, revenue growth in the wireless sector is now driven almost exclusively by data services. As such, it's clearly in the interest of the wireless haves, AT&T Mobility (AT&T) and Verizon Wireless (VzW), to undertake actions designed to maximize their share of data revenue now and as far into the future as possible. In fact, there is a case to be made that the management of AT&T and VzW have a fiduciary duty, bounded only by legal limits, to take actions specifically designed to limit the ability of their competitors to generate data revenue. So no one should be surprised that fair and reasonable data roaming agreements are becoming increasingly difficult to negotiate.

Why have roaming agreements and in particular data roaming agreements become such a big issue? The answer is that the market force that once bound wireless carriers together has lost its power. Until recently, wireless carriers were dependent upon each other to provide network coverage in various areas of the country. This dependency drove the ubiquity of roaming agreements which in turn enabled a form of competitive parity based on access to nationwide network coverage.

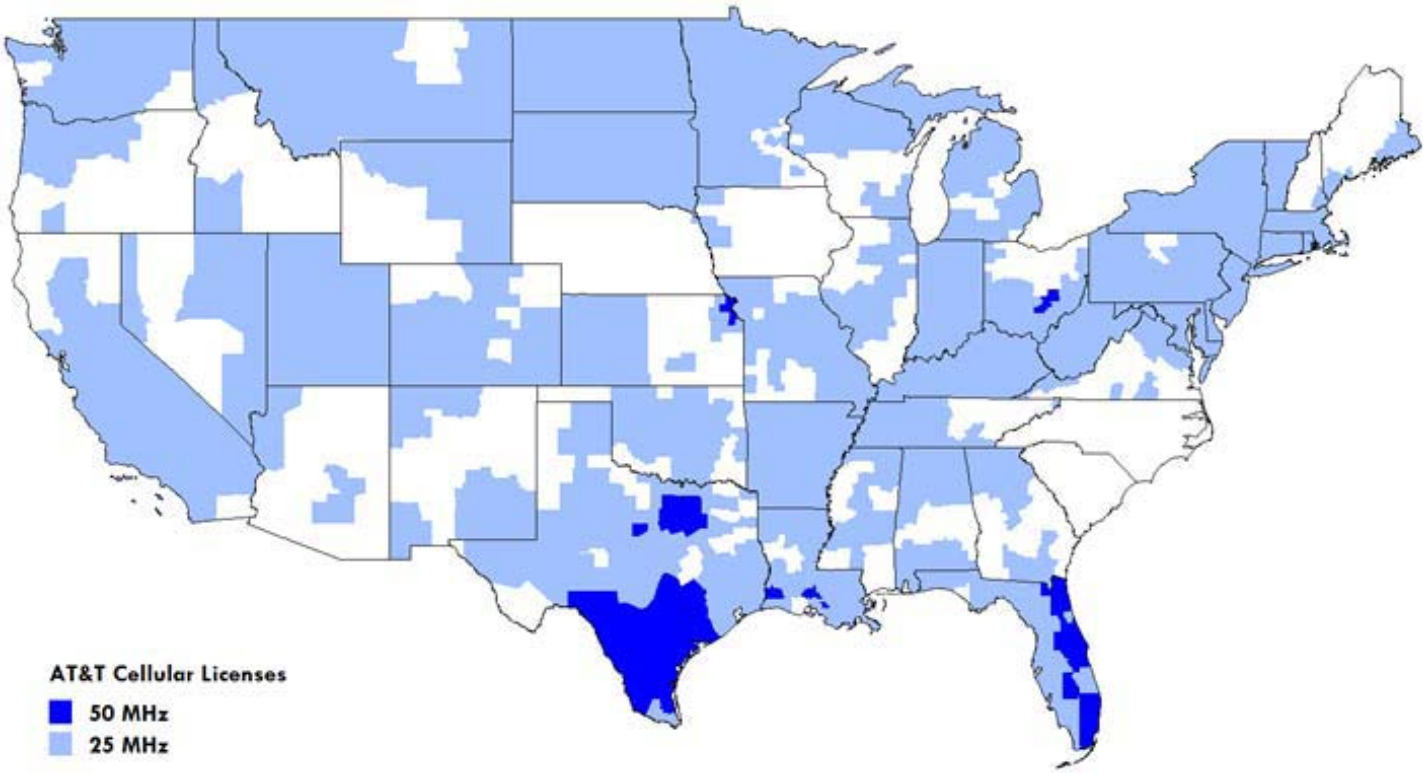


AT&T and VZW have been able to essentially eliminate their need for external coverage through the consolidation of the nation's cellular operators. Both companies market their products with messages that tout the extensiveness of their on-network coverage areas. The root from which these claims grow is their control of the vast majority of cellular spectrum. The table and maps below show the extent to which the wireless haves depend on cellular spectrum for their current market dominance.

Further, to the extent that AT&T and VzW can dilute coverage claims made by their competitors, it makes basic economic sense for them to do so. Certainly, the most efficient way to accomplish this goal is to make roaming agreements as expensive as possible and to make the negotiation of roaming agreements a long and difficult process.

In the U.S. the application of regulation is used to fill gaps created by the failure of market forces. Given the level of discord surrounding data roaming, it is clear that the current competitive environment is now working against the market for roaming services. In the event that automatic data roaming obligations are established, which I believe is likely, what constitutes a "fair and reasonable" rate for data roaming service?

This is a tricky question; roaming rates have always been an interesting phenomenon in the wireless sector. The phrase "wholesale" is sometimes used to describe roaming but "wholesale" generally connotes pricing that is above the cost of production and below the normal retail price. This pricing scheme has



never been norm with regard to the cost of roaming. The fact is that the cost of roaming has significantly exceeded the imputed retail price for the same service. The reason for this is that wireless carriers want to prevent unauthorized resale of their networks by their roaming partners. The strongest means of accomplishing this goal is to provide an economic disincentive by ensuring the price of roaming will never generate a profit. This premise seems reasonable and for the most part has been successful in achieving its end.

The table below shows an analysis of the relationship between the cost of producing one voice Minute of Use ("MOU") and the voice roaming rates that are widely available in the market. The imputed roaming rates shown are relatively close to those which can be negotiated for voice services.

Imputed Roaming Prices per Voice MOU

	Margin Requirement				
Cost of Production	**600%**	**700%**	**800%**	**900%**	**1000%**
$0.005	$0.035	$0.040	$0.045	$0.050	$0.055
$0.008	$0.053	$0.060	$0.068	$0.075	$0.083
$0.010	$0.070	$0.080	**$0.090**	$0.100	$0.110
$0.013	$0.088	$0.100	$0.113	$0.125	$0.138
$0.015	$0.105	$0.120	$0.135	$0.150	$0.165

Notes: Cost of production is based on expenses related to network operations.

JSICA's internal modeling indicates that the cost of producing one Mbyte of Use ("MbOU") is less than the cost of producing a MOU. Assuming the voice rates shown above are "fair and reasonable," we can then apply the same analytical framework for data roaming as we did for voice roaming, resulting rates range between three and six cents per MbOU.

Anyone who has tried to negotiate a data roaming agreement will certainly know that the MbOU rates described above are not widely available on a commercial basis. However, I have heard rumblings to the effect that the data

Imputed Roaming Prices per Voice Mbyte

	Margin Requirement				
Cost of Production	**600%**	**700%**	**800%**	**900%**	**1000%**
$0.002	$0.016	$0.018	$0.020	$0.023	$0.025
$0.003	$0.024	$0.027	$0.031	$0.034	$0.038
$0.005	$0.032	$0.036	**$0.041**	$0.045	$0.050
$0.006	$0.040	$0.045	$0.051	$0.057	$0.063
$0.007	$0.048	$0.055	$0.061	$0.068	$0.075

Notes: Cost of production is based on expenses related to network operations.

roaming rates offered by VzW in conjunction with its LTE for Rural America (LRA) program are close to or within the range of our analysis. In other words, "work with us, or it won't work well for you."

I would add that the data roaming rates that we have presented are those that are justified today. If the current trend with regard to data usage patterns continues, which I believe will be the case, then data roaming rates should decline steeply over the next three to five years as the incremental cost falls.

Clearly all is not well on the data roaming front if you're among the have nots. Based on my findings, in the interest of fostering competition—as opposed to a comfortable duopoly—the case for FCC implementation of automatic data roaming rules is justified. Furthermore, I believe that it is in the best interests of the industry, not to mention consumers, that the FCC act swiftly given the inevitable legal tussles that will follow as the haves try to maintain their current relative advantage.

INDUSTRY TRENDS

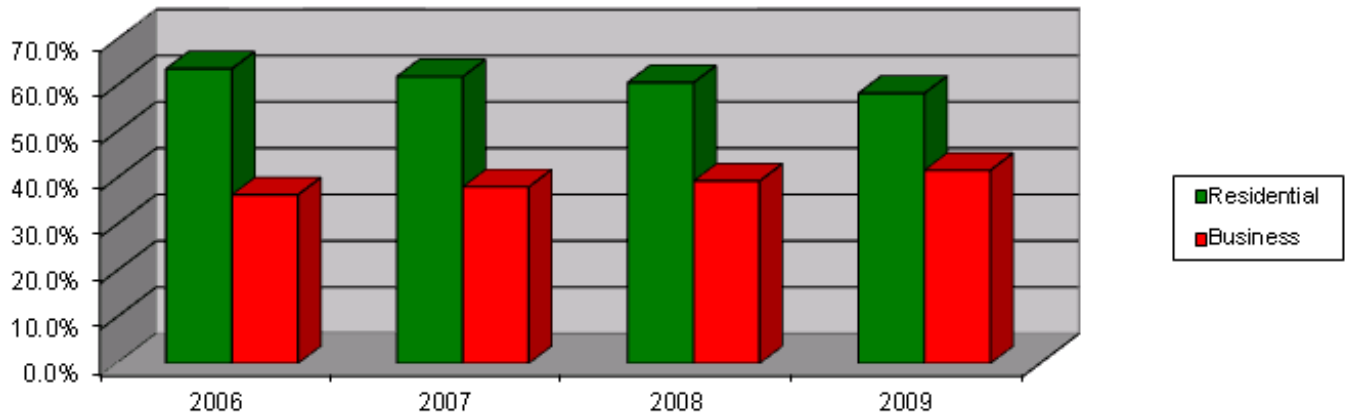
Large ILECs Lessening Reliance on Consumers

RLECs…Not So Much

(Posted by Richelle Elberg on Monday, January 31, 2011)

Several of the publicly traded ILECs that we follow have made a concerted effort over the past few years to shift their customer base from residential consumers to enterprise customers and small/medium business customers. The rationale is clear—business users, regardless of the type of product or service they offer—have been considered less likely to cut the cord, or at least more willing to opt for a bundled plan that includes a wired voice offering along with broadband connectivity. Windstream (Nasdaq:WIN) has been a vocal

Residential versus Business Lines: All Public Companies 2006 - 2009



Sources - JSICA observations and calculations