

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)
)
Applications of AT&T Inc. and) WT Docket No. 11-65
Deutsche Telekom AG)
)
For Consent To Assign or Transfer Control of)
Licenses and Authorizations)

REPLY COMMENTS OF CABLEVISION SYSTEMS CORPORATION

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Cablevision Systems Corporation (“Cablevision”), by its counsel, hereby submits reply comments on the applications filed by AT&T Inc. and Deutsche Telekom AG (together “AT&T” or the “Applicants”) for consent to assign or transfer control of certain licenses and authorizations, which are the subject of the above-captioned docket.

INTRODUCTION AND SUMMARY

For decades, the Commission has promoted consumer welfare by advancing a policy of robust competition in the wireless market, making licensed and unlicensed spectrum available for multiple competitors, and, where necessary, engaging in targeted regulation to facilitate competition. These efforts have enabled Cablevision, through substantial investments in unlicensed bands, to offer its customers access to its Optimum WiFi network, the largest contiguous WiFi network in North America.

The proposed merger would make it harder for Cablevision, and any other prospective competitor, to bring new services to market against the incumbent providers. It creates a substantial hurdle that may prevent new entrants, including those that have invested heavily in alternative mobile data technologies (like WiFi), from entering the market to provide national or

regional wireless broadband data services, competing with compelling new “quad play” service offerings, and exerting value and price pressure on incumbents like AT&T and Verizon. As such, the proposed transaction undermines decades of carefully calibrated pro-competitive policies designed to encourage competition and facilitate entry.

AT&T freely acknowledges that there are high entry barriers for new providers of mobile broadband services – barriers that make relying in part on access to incumbent facilities to supplement a nascent wireless network during its buildout phase a potentially important strategy.¹ Indeed, barriers such as spectrum scarcity and the high cost of new infrastructure are *the entire reason* AT&T argues that the only cost-effective way it can alleviate its capacity constraints is by acquiring T-Mobile. But then AT&T ignores the implications that such barriers have for the entry or expansion of others – particularly new entrants – claiming that virtually no other provider would be significantly affected by its acquisition of T-Mobile.

That is simply not true. Rather, an independent T-Mobile would play a vital role in preserving and enhancing competition in wireless markets, because it is one of only two nationwide carriers willing to enter into the type of wholesale partnerships sought by providers like Cablevision – and the *only* such GSM-based provider. And T-Mobile, if it is not absorbed by AT&T, is likely to have ample incentive to further cultivate such relationships. In contrast, AT&T has made clear that it has little interest or incentive to participate in the wholesale market in any meaningful fashion. This transaction thus increases already high barriers to entry by

¹ See, e.g., *In re Examination of Roaming Obligations of Commercial Mobile Radio Service Providers and Other Providers of Mobile Radio Services*, Second Report and Order, 26 FCC Rcd 5411, 5421-22, ¶¶ 18-20 (2011) (“*Data Roaming Order*”) (“The availability of roaming arrangements can also provide additional incentives to enter a market by allowing network providers without a presence in an area a competitive level of local coverage during the early period of investment and buildout.”); see also, e.g., Petition of Cox Communications, Inc. to Condition Consent (“Cox Comments”), at 10.

dramatically limiting wholesale entry options, to the detriment of competitors and consumers. For these reasons, as Cablevision has explained, the Commission should not approve this transaction without imposing conditions sufficient to preserve effective means of wholesale entry.

As discussed below, AT&T's claims to the contrary are unavailing:

- **T-Mobile is an important source of wholesale access.** AT&T's assertion that T-Mobile is not a meaningful source of wholesale inputs is undermined by AT&T's acknowledgment that T-Mobile has been rapidly adding wholesale customers to replace a declining retail business. And, more importantly, an independent T-Mobile would be incentivized to pursue aggressively any business activity that will enable it to make efficient use of, and offset the capital costs necessary to support, any added capacity going forward.
- **There are no adequate wholesale alternatives to T-Mobile.** Likewise, AT&T's claim that other sources of wholesale access can fully replace T-Mobile is without merit. Other providers – none of which were apparently adequate to fulfill T-Mobile's or AT&T's own capacity needs – cannot replace the only national GSM-based provider willing to enter meaningful wholesale partnerships. Moreover, AT&T's claim that allowing it to gain a GSM-based monopoly does not have competitive significance ignores that GSM-based technology is the worldwide standard, making new entry via that technology cheaper and easier than entering via CDMA, and that GSM-based networks will be used in the United States for years to come.
- **Cablevision's proposed conditions are targeted to harm caused by this transaction.** If the Commission does not reject this transaction outright, it should impose a set of expanded data roaming requirements that permit wholesale or roaming access to AT&T's radio access network by licensed and unlicensed providers, and open network requirements that would enable consumers to use AT&T's network with devices of consumers' choosing. Contrary to AT&T's assertions, such conditions are carefully targeted to mitigate the damage this transaction would cause to the wholesale market, and are easily administrable by the Commission.

Accordingly, as discussed in Cablevision's comments and those of numerous other parties to this proceeding – the Commission should either reject this transaction outright, or

impose sufficient conditions to preserve effective means of wholesale entry, including those Cablevision has proposed.

I. AT&T ACKNOWLEDGES THAT THE WIRELESS MARKET IS CHARACTERIZED BY HIGH BARRIERS THAT MAKE ENTRY OR EXPANSION EXCEEDINGLY DIFFICULT.

As Cablevision and other parties have explained, there are already high barriers to entering the cellular broadband market that make entering on a facilities-based model – at least in the near term – particularly difficult. These barriers include lack of available spectrum, delays involved in constructing or negotiating access to necessary infrastructure, and costs associated with device development.² Indeed, AT&T presents these barriers as the very reason the proposed transaction was conceived and should be approved. It argues that it must be allowed to acquire T-Mobile because otherwise it will face such “severe spectrum and capacity constraints” that it will not be able to expand its business to meet growing consumer demand.³ AT&T claims to have “worked tirelessly” to address its network capacity limitations through other means, such as acquiring more spectrum and building new cell sites, but to no avail.⁴ Its efforts have purportedly been hampered not only by the spectrum crunch that most parties acknowledge, but also by the “inherently complex and lengthy” process required to construct or negotiate access to new cell sites, which is “exponentially more difficult” in high traffic areas.⁵

² Comments of Cablevision Systems Corporation (“Cablevision Comments”), at 8-9; Cox Comments at 7-9; Petition to Deny of Public Knowledge, et al. at 6-7.

³ Reply Declaration of William Hogg (“Hogg Reply Decl.”), ¶ 51 (attached to Joint Opposition of AT&T, Inc., Deutsche Telekom AG, and T-Mobile USA, Inc. to Petitions to Deny and Reply to Comments (“Joint Opp.”)).

⁴ Description of Transaction, Public Interest Statement and Related Showings (“Public Interest Statement”), at 27.

⁵ Hogg Reply Decl., ¶¶ 57, 59.

AT&T's emphasis on the formidable barriers to entry and expansion in the wireless market make its efforts to downplay the importance of the wholesale market all the more striking. If AT&T is struggling to acquire suitable spectrum and build out its existing network, then the implications for a new entrant are clear. Partnering with an existing provider is the most viable means for a new provider to enter the cellular broadband market, at least in the near term. Yet AT&T's acquisition of T-Mobile would eliminate one of the few sources for such a partnership in the country.

II. THE PROPOSED TRANSACTION ANTICOMPETITIVELY REDUCES WHOLESALE COMPETITION BY FURTHER RAISING HIGH ENTRY BARRIERS.

In light of the high barriers to entering the cellular broadband market on a facilities-based model acknowledged by AT&T, wholesale competition is especially important. Yet, as Cablevision explained in its opening Comments, AT&T and Verizon have shown no interest in providing wholesale access to their high-speed data networks in any meaningful way, *i.e.*, in a manner that allows partners to provide differentiated retail services in competition with AT&T and Verizon's retail operations.⁶ This should not be surprising, since, as the largest companies in the wireless business, AT&T and Verizon would lose proportionately more of their own retail customers to a competitor than would a smaller company such as T-Mobile. There are thus only two nationwide wireless carriers – Sprint and T-Mobile – willing to provide such access, and only one of them, T-Mobile, offers access to a GSM-based network.⁷

In its Opposition, AT&T confirms that it has no interest in offering meaningful wholesale access to its facilities, essentially conceding that it does not provide potential retail competitors

⁶ See, e.g., Cablevision Comments at 10; Comments of Japan Communications, Inc., et al., at 8.

⁷ Cablevision Comments at 10-11.

wholesale access to its high-speed data networks,⁸ and defending vigorously its prerogative to prevent providers from using roaming as a means of purchasing wholesale access from AT&T.⁹ Nor does AT&T dispute that, unlike AT&T, T-Mobile has been ready and willing to enter meaningful wholesale partnerships, or that **[BEGIN HIGHLY CONFIDENTIAL]**

[END HIGHLY CONFIDENTIAL].¹⁰

Instead, AT&T ignores this reality, claiming that T-Mobile is “not a significant competitor in the wholesale marketplace,” and, AT&T argues, because ample wholesale alternatives remain, T-Mobile’s elimination from the market is an immaterial barrier to entry for new providers. As discussed below, these claims are without merit.¹¹

A. AT&T’s Claim That An Independent T-Mobile Is Not A Meaningful Source Of Wholesale Competition Is Meritless.

AT&T claims that T-Mobile is “not a significant competitor in the wholesale marketplace,” because, AT&T asserts, T-Mobile currently has only two “significant” wholesale customers.¹² Leaving aside that AT&T offers no insight as to what “significant” means in this context, the assertion is false on its face. As AT&T acknowledges, the “overwhelming majority of [T-Mobile’s no-contract customer adds in the first quarter] are customers of MVNOs that use T-Mobile USA’s network on a wholesale basis.”¹³ And, as noted above, AT&T does not dispute that T-Mobile has been enthusiastic about entering into meaningful wholesale partnerships,

⁸ *Id.* at 10.

⁹ Joint Opp. at 159-60; *infra*.

¹⁰ Cablevision Comments at 10.

¹¹ Joint Opp. at 214.

¹² *Id.*

¹³ *Id.* at 136.

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HIGHLY CONFIDENTIAL]

More fundamentally, what matters here is not what T-Mobile has done in the past, but rather what T-Mobile's incentives are going forward. T-Mobile has incentives to compete aggressively for wholesale business in order to fully utilize the new network capacity that it has committed to adding.¹⁴ If it is true, as AT&T alleges, that economies of scale are significant in the wireless industry, then as T-Mobile expands capacity, it will seek to offer this new capacity on a wholesale basis, in addition to using it for its own retail customers.¹⁵ And an independent T-Mobile's enthusiasm for wholesale is likely to increase, especially if, as AT&T predicts, T-Mobile's retail growth continues to decline.¹⁶ Just as Sprint aggressively pursued its wholesale business in the face of slowing retail sales, an independent T-Mobile rationally would likely do exactly the same thing. As many parties have noted, T-Mobile has consistently adopted cutting edge business innovations, such as Android phones, WiFi calling, and lower prices plans,¹⁷ and very likely would continue to move quickly to take advantage of new wholesale opportunities if it remains an independent company.

¹⁴ Cablevision Comments at 11.

¹⁵ T-Mobile's alleged capacity constraints do not alter this analysis. *See* Declaration of Dr. Kim Kylesbech Larsen, (attached to Joint Opp.) ("Larsen Decl.") ¶¶ 18-21. All actual and potential providers in the market will face capacity constraints in the short run. If it is costly and risky to expand capacity, as AT&T suggests, then the best situated provider to undertake these investments would be a large incumbent (*i.e.*, T-Mobile) rather than a new entrant, which does not have the customer base or operating experience of T-Mobile.

¹⁶ *See, e.g.*, Joint Opp. at 136.

¹⁷ Joint Petition to Deny of Center for Media Justice, et al. at 24-26; Petition to Deny of Free Press at 33-34; Petition to Deny of Sprint Nextel Corporation at 91.

B. AT&T’s Assertion That Sufficient Wholesale Opportunities Remain To Offset The Loss Of An Independent T-Mobile Is Similarly Wrong.

AT&T’s insistence that other sources of wholesale access can replace T-Mobile’s entry-facilitating role is similarly misplaced.¹⁸ AT&T continues to rely most heavily on claims that Clearwire and LightSquared could provide the kind of wholesale capacity Cablevision seeks,¹⁹

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[END CONFIDENTIAL].²⁰ As

Cablevision previously explained, LightSquared and Clearwire face questions about their longer-term financial viability, and AT&T itself has previously indicated it believes it unlikely that both companies will survive.²¹ Clearwire’s comments show that the loss of T-Mobile as a potential purchaser of wholesale access may fundamentally alter Clearwire’s own business.²²

LightSquared, which is not yet providing any service, confronts questions about whether potential interference to GPS devices will delay or undermine its service, and both “AT&T and Verizon have raised red flags about the potential threat to their network operations.”²³

Additionally, LightSquared may need to purchase LTE capacity *from AT&T*.²⁴

¹⁸ Cablevision Comments at 11-13.

¹⁹ See Joint Opp. at 215.

²⁰ Joint Opp. at 41 n.56; Larsen Decl., ¶ 17.

²¹ See Report: *LightSquared to Buy LTE Network Capacity from AT&T*, Fierce Wireless (June 1, 2011), <http://www.fiercewireless.com/story/report-lightsquared-buy-lte-network-capacity-att/2011-06-01>.

²² See Comments of Clearwire Corporation (“Clearwire Comments”), at 2.

²³ *Wireless Carriers Disagree on LightSquared Threat*, Comm. Daily (June 16, 2011).

²⁴ See Report: *LightSquared to Buy LTE Network Capacity from AT&T*, Fierce Wireless (June 1, 2011), <http://www.fiercewireless.com/story/report-lightsquared-buy-lte-network-capacity-att/2011-06-01>.

AT&T’s anecdotal claims about retailers striking resale deals with Clearwire or LightSquared prove little.²⁵ These claims all involve essentially branding arrangements, in which a partner resells services under a different brand name. As such, there is little risk to Clearwire’s and LightSquared’s partners. These partners need not invest any resources in facilities, and, if Clearwire or LightSquared fails, whatever resources they invest in marketing can be recouped by switching to another carrier. These arrangements are fundamentally different from arrangements in which the provider using wholesale access would make significant investments in facilities to work in cooperation with the wholesale carrier. For example, a dual WiFi-cellular broadband partnership would require sunk investment in core network assets, handsets, and other equipment. Such commitments necessarily require some certainty of long-term stability on the part of a potential partner, which Clearwire and LightSquared currently lack.

C. AT&T Misrepresents The Impact Of Its Becoming The Sole National GSM-Based Carrier.

AT&T’s claim that the disappearance of T-Mobile would cause little impact to the market for wholesale access is premised in part on AT&T’s argument that it becoming the sole nationwide GSM-based carrier would not have implications for competition. As AT&T itself recognizes, however, the GSM-based standard is used by most of the rest of the world, and thus that standard’s device ecosystem is “global” and “vast.”²⁶ Accordingly, as previously explained, a provider like Cablevision seeking to enter via a WiFi network can do so much more easily and cost-effectively using a GSM-based cellular canopy than using CDMA-based technology.²⁷

²⁵ See Joint Opp. at 215-16.

²⁶ Joint Opp. at 149.

²⁷ Cablevision Comments at 13.

That path will be unavailable if the only nationwide GSM-based provider in the country is AT&T.

AT&T's responses to this way in which its acquiring of T-Mobile hampers new entrants are unavailing. First, AT&T points out that with respect to 3G networks, it and T-Mobile use different spectrum bands, so that, AT&T argues, they are not substitutes for each other in the wholesale market.²⁸ That argument ignores the fact that 3G networks are only a subset of the wireless networks used by both carriers, and as AT&T repeatedly emphasizes, it will be necessary to maintain legacy networks for a long period of time.²⁹ In fact, as AT&T concedes, AT&T and T-Mobile are each other's largest roaming customers, showing that their networks are substitutable in most instances.³⁰ More importantly, whether AT&T and T-Mobile's 3G networks operate on the same frequencies is largely irrelevant from a wholesale entry perspective. A new wholesale entrant seeking to create or expand its own service can buy or build devices that work on either AT&T's or T-Mobile's 3G spectrum, or on both carriers' networks. The two carriers' 3G networks thus are substitutes for each other.

Second, AT&T wrongly claims that providers using wholesale access can easily switch to CDMA-based wholesale providers if the terms of GSM-based wholesale service become unattractive.³¹ While that may be true for some resellers who merely rebrand incumbent services, it is decidedly untrue for any provider that would invest in using its own facilities or providing its own handsets. Such a provider cannot take equipment built for a GSM-based

²⁸ See Joint Opp. at 158-59.

²⁹ See, e.g., Joint Opp. at 32.

³⁰ Reply Declaration of Dennis W. Carleton, et al. (attached to Joint Opp.) ("Carleton Decl."), ¶ 143.

³¹ Joint Opp. at 199-200.

network and move it to a CDMA-based network. AT&T's argument also ignores the fact that, as mentioned above, access to the "vast" GSM-based equipment ecosystem makes entry via a GSM-based network more attractive than CDMA-based entry.

Finally, AT&T's assertion that any benefit of a GSM-based monopoly would be short-lived because all carriers will eventually move to LTE ignores the fact that the transition to LTE is likely to take years, and during the buildout phase coverage will be spotty.³² As AT&T repeatedly emphasizes, moreover, because of embedded users, legacy networks will co-exist with LTE for many additional years. AT&T's suggestion that new entrants rely on the emerging 4G standard and get wholesale deals "somewhere else" is hardly an adequate response to the significant impact its proposed acquisition will have on opportunities for competition in today's wireless data and voice market.

III. THE COMMISSION SHOULD EITHER REJECT THIS TRANSACTION OR PUT IN PLACE CONDITIONS TO PRESERVE COMPETITION.

The proposed transaction undermines the Commission's longstanding commitment to promoting robust competition in the wireless market. Accordingly, the Commission could reasonably reject the proposed transaction outright. If, however, the Commission nevertheless decides to approve the merger, it should impose meaningful, enforceable conditions to preserve competition in both the retail and wholesale markets. As Cablevision explained in its initial comments, at minimum, these conditions should include (1) a set of expanded data roaming requirements that permit wholesale or roaming access to AT&T's radio access network by licensed and unlicensed providers and (2) open network requirements that enable consumers to use AT&T's network with devices of consumers' choosing. Contrary to AT&T's broad

³² *Id.* at 31-32.

claims,³³ these conditions are directly responsive to the harm caused by the transaction to competition in the wholesale market. While they cannot substitute fully for the loss of T-Mobile, a firm that had actual incentives to provide wholesale access to other carriers as well as to compete vigorously in the retail market, they would facilitate wholesale entry and thereby mitigate some of the damage this transaction would cause.

A. AT&T Should Be Required To Offer Data Roaming at Cost-Based Rates to Both Other Cellular Broadband and WiFi Providers.

Any approval of this transaction should be accompanied by conditions that would require AT&T to offer a form of data roaming to other cellular broadband carriers as well as WiFi providers at cost-based rates, both in markets where the roaming carrier has facilities and where it does not. This condition would provide a means of cellular broadband wholesale access to WiFi providers like Cablevision without creating an entirely new regime.

AT&T offers little in the way of a response to this condition. First, AT&T wrongly suggests that the condition is mandatory “resale,” which it argues has already been rejected by the Commission. It is true that the Commission allowed the rule requiring CMRS providers to offer their services for resale to sunset.³⁴ That decision, however, was based on the existence of vigorous facilities-based competition. As the Commission explained, “within five years after the D, E, and F block broadband PCS licenses are awarded, it is reasonable to anticipate that there will be up to six facilities-based broadband PCS carriers, as well as potentially one or more covered SMR providers, competing with two cellular licensees in every geographic area.”³⁵ If

³³ Joint Opp. at 209.

³⁴ See e.g., *In re Interconnection and Resale Obligations Pertain to Commercial Mobile Radio Service*, First Report and Order, 11 FCC Rcd 18,455, 18,468-69, ¶ 24 (1996).

³⁵ *Id.*

this transaction is approved, there will be less than one third of the number of facilities-based providers the Commission anticipated in many areas. Requiring AT&T to make available its facilities on a wholesale basis – to enable the kind of innovative services providers like Cablevision would provide – would merely replace some of the competition that would be lost by AT&T’s absorption of T-Mobile.

Second, AT&T argues that requiring it to offer access at cost-based rates would embroil the Commission in “complex ratemaking proceedings.”³⁶ However, as Cablevision explained in its initial comments, *ex ante* price regulation of AT&T’s wholesale service would be unnecessary to enforce this condition.³⁷ Rather, providers could negotiate cost-based rates with AT&T, and the Commission could rely on enforcement and complaint proceedings to police them. AT&T’s own retail rates, the rates it charges for voice roaming, or prices for wholesale access set in other markets could be used as benchmarks.

Finally, AT&T claims that the Commission’s recently announced Data Roaming Order is adequate to ensure AT&T allows data roaming at reasonable rates. However, as AT&T takes pains to emphasize, that order was not designed to facilitate wholesale competition, as this condition is. That order states that data roaming is limited to existing, licensed CMRS providers, may not be used to provide resale (which is one form of retail service that can be provided via wholesale), suggests that the high prices currently prevailing for data roaming need not necessarily be lowered, and makes unclear whether it may be reasonable in some circumstances to refuse to provide data roaming in areas where the requesting carrier has extensive facilities.³⁸

³⁶ Joint Opp. at 160.

³⁷ Cablevision Comments at 18 n.50.

³⁸ *Data Roaming Order*, 26 FCC Rcd at 5429-32, 5453, ¶¶ 34, 38 & n.116, 41 & n.122, 88 (2011) (stating repeatedly that data roaming rules cannot be used to require a carrier to offer its

That order, which was designed for a world with at least four nationwide competitors, thus serves a wholly different purpose than the wholesale entry model that Cablevision proposes here.

B. AT&T Should Be Required To Allow Compatible Devices To Use Its Network.

As Cablevision explained in its initial comments, if the Commission approves this transaction, it should, as it did with respect to the C Block, prohibit AT&T from restricting the ability of its customers to use the devices of their choice on AT&T’s network.³⁹ This condition would facilitate an additional, important means of wholesale-like partnership that could restore some of the competition that would be lost if this transaction is approved. Specifically, the condition would enable a WiFi provider like Cablevision to provide dual-mode WiFi-Cellular Broadband devices to its customers, and certify those devices to work on AT&T’s mobile cellular network as part of a wholesale or roaming relationship. Access to a robust market for devices that interoperate on the AT&T network would permit innovation by third parties, like Cablevision, in devices that meet specific consumer needs.

AT&T’s only response to this proposal is to argue that the Commission’s decision to impose a similar requirement on the C Block licensee was “an experiment,” and that it is bad policy to apply that requirement to AT&T until the effects of the initial experiment can be more accurately gauged.⁴⁰ If, however, AT&T is going to be allowed to conduct a far more risky experiment on consumers by consolidating two of the largest wireless carriers in the United

services for resale – one form of service using wholesale access); *id.* at 5423, ¶ 21 (noting that “the relatively high price of roaming compared to providing facilities-based service will often be sufficient to counterbalance the incentive to ‘piggy back’ on another carrier’s network”) (quotation marks omitted); *id.* at 5453, ¶ 86 (stating that one factor used in adjudicating a data roaming dispute is “whether the requesting provider is seeking data roaming for an area where it is already providing facilities-based service”).

³⁹ Cablevision Comments at 15.

⁴⁰ Joint Opp. at 205.

States, this moderate condition designed to facilitate wholesale competition appears to be a quite reasonable safety measure.

CONCLUSION

For the reasons discussed above and in Cablevision's initial comments, the Commission should either reject the transaction outright or put in place bold, enforceable conditions to preserve competition. If the Commission approves AT&T's acquisition of T-Mobile, AT&T should, at minimum, be required to abide by (1) a set of expanded data roaming requirements that permit wholesale or roaming access to AT&T's radio access network by providers using licensed or unlicensed spectrum and (2) open network requirements that enable consumers to use AT&T's network with devices of consumers' choosing.

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June 20, 2011

Certificate of Service

I hereby certify that on this 20th day of June, 2011, I caused true and correct copies of the foregoing Reply Comments to be served by hand on:

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