

Complaint:

AT&T punishes its customers for T-Mo merger's failure

Wondering why AT&T smart phone data rates just went up? Because the [operator was denied its acquisition of T-Mobile](#) – at least that's what AT&T CEO Randall Stephenson implied at AT&T's financial results call on Thursday. AT&T seems awfully [bitter about AT&T-Mo's failure](#), and now it appears to be taking it out on its customers.

After blasting the Federal Communication Commission for “picking winners and losers” in the wireless industry by scrutinizing every deal, Stephenson claimed AT&T is now in a mobile capacity-constrained environment which has forced it to raise prices and manage connection speeds (aka throttle) for its highest volume subscribers.

This is just plain vindictive. There definitely is correlation between capacity and pricing: the same correlation that exists between supply and demand. But AT&T isn't following supply-and-demand logic. [While AT&T raised its overall smartphone data plan rates](#) last week, it actually lowered by 20 percent the prices customers pay for a gigabyte of data on its most popular mid-tier mobile data plan.

Stephenson claimed AT&T was the carrier most affected by the explosion in mobile data usage because it was the first operator to get the iPhone, **which continues to dominate its sales**. AT&T's smartphone penetration among contract subscribers is now 56.8 percent, compared to Verizon's 44 percent, yet AT&T's mobile data rates are 50 percent cheaper than Verizon's.

If AT&T were really that constrained by network capacity, it wouldn't be lowering the price it charges to deliver each byte. AT&T's price hikes are simply a revenue play. By raising the prices of its data plan tiers, it's guaranteeing it will get \$5 more a month on each new smartphone customer, but it won't be limiting their usage. Instead, it's actually encouraging its customers to consume more.

To meet this supposed capacity crunch, Stephenson claimed AT&T has been forced to milk as much performance out of its current networks as possible. It's deploying distributed antenna systems to push its coverage into more nooks and crannies, splitting cells so it can reuse its cellular and PCS spectrum in more places. It also expanded fiber and Ethernet backhaul links to the majority of its cell sites, so 80 percent of its mobile broadband traffic is riding over 14 Mbps HSPA+ connections. The implication is AT&T wouldn't have to take such drastic measures if the government had let it buddy up with a competitor.

But AT&T began experiencing its huge ramp-up in network data traffic in 2008 when the iPhone 3G was introduced. AT&T saw this data tsunami coming almost four years ago. Why didn't the company invest in LTE sooner, or use the AWS spectrum it has been sitting on for nearly six years?

Stephenson had answers to those questions as well. He said AT&T can only expect 30 percent of its mobile data traffic to move to LTE in the near term, meaning its HSPA+ network will

have to bear its capacity burden for some time. That's true; Verizon is experiencing similar problems. In its fourth-quarter earnings, Verizon revealed that the vast majority of new smartphone customers are [still signing up for 3G-only plans](#), largely because the iPhone lacks LTE support.

But T-Mobile wouldn't have solved that problem. AT&T planned to shut down T-Mobile's HSPA+ so the operators could consolidate their AWS spectrum in order to launch a massive LTE network. If the merger had succeeded, AT&T's HSPA+ network would have had to pull double duty, handling both carriers' 4G customers while AT&T transitioned to LTE. I'm not refuting that AT&T's network is running hot, but its problems seem to be largely of its own making, and buying T-Mobile wouldn't have solved any of its immediate capacity needs.

Finally, Stephenson lambasted the FCC over what AT&T considers the commission's arbitrary rulemaking, and he repeated AT&T's [call for Congress to start setting spectrum auction policy](#). Ironically, today's more vigilant FCC is AT&T's own Frankenstein creation. As I wrote in a post earlier Thursday, [AT&T's consolidation ambitions lit a fire under regulators](#), which had been content to let every major wireless deal slide for the last decade. The FCC and U.S. Department of Justice are now more aggressive, and we have AT&T to thank.