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EX PARTE OR LATE FILED

ORIGINAL

August 8, 2011

FILED/ACCEPTED

VIA HAND DELIVERY AND ECFs

AUG - 8 2011

Federal Communications Commission
Office of the Secretary

Marlene H. Dortch, Esq.
Secretary
Office of the Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: **Notice of Ex Parte Presentation: *In re Applications of AT&T Inc. and Deutsche Telekom AG for Consent to Assign or Transfer Control of Licenses and Authorizations*, WT Dkt No. 11-65**

REDACTED - FOR PUBLIC INSPECTION

Dear Ms. Dortch:

On August 4, 2011, William E. Hogg, Gary L. Phillips, and Jack S. Zinman of AT&T Inc. ("AT&T"); and Richard Rosen and Maureen Jeffreys of Arnold & Porter LLP, representing AT&T, met via teleconference with Renata Hesse, the FCC's Senior Counsel to the Chairman for Transactions; Austin Schlick and Michael Steffen of the FCC's Office of the General Counsel; Tom Peters, Peter Trachtenberg, and Ziad Sleem of the FCC's Wireless Telecommunications Bureau; and Paul de Sa of the FCC's Office of Strategic Planning and Policy Analysis.

The purpose of the meeting was to discuss AT&T's current LTE deployment plans to reach 80 percent of the U.S. population by the end of 2013 ("Plan of Record");¹ the estimated

¹ *In re Applications of AT&T Inc. & Deutsche Telekom AG for Consent to Assign or Transfer Control of Licenses & Authorizations*, WT Dkt No. 11-65, Reply Declaration of William Hogg ¶ 39 (June 9, 2011) ("Hogg Reply Declaration"); [Begin Highly Confidential Information]

[End Highly Confidential Information]. Shapefiles corresponding to AT&T's estimated coverage area for its pre- and

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[Begin Confidential Information] \$3.8 billion [End Confidential Information] in additional capital expenditures to expand LTE coverage from 80 to 97 percent of the U.S. population;² and AT&T's commitment to expand LTE to over 97 percent of the U.S. population as a result of this transaction.³

First, AT&T discussed its original LTE deployment plans to cover 80 percent of the U.S. population, or approximately 250 million Americans, by the end of 2014 and the decision in January 2011 to accelerate that plan by one year (to year-end 2013).⁴ Under this accelerated plan, AT&T intends to cover 70 million Americans with LTE service by year-end 2011, approximately [Begin Confidential Information] 170 million Americans [End Confidential Information] by year-end 2012, and approximately 250 million Americans by year-end 2013. [Begin Confidential Information] As part of its deployment, AT&T plans to upgrade approximately 44,000 nodes to LTE: 8,000 nodes in 2011, 16,000 nodes in 2012, and 20,000 nodes in 2013 [End Confidential Information].⁵

Second, AT&T explained its decision in January 2011 to reject a proposal from AT&T's marketing organization to expand LTE coverage beyond the areas covered by the Plan of Record. AT&T noted that prior to January 2011, senior management had considered and rejected such proposals on numerous occasions, finding each time that there was no viable business case for the proposed expansion. When, in early January 2011, senior management again revisited that decision, it came to the same conclusion.⁶ It found that expanding coverage from AT&T's Plan of Record to 97 percent of the U.S. population would require AT&T to almost triple the land mass covered by its LTE network, from below 20 percent of the United States to approximately 55 percent and that providing LTE services to areas outside the Plan of

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post-merger LTE deployment plans in certain states are being filed with the Highly Confidential version of this submission under the Second Protective Order. The maps AT&T derived from these shapefiles are based on assumptions that maximize pre-merger coverage so as to present a conservative view of the increase in coverage when compared to post-merger maps.

² Hogg Reply Declaration ¶ 40.

³ Hogg Reply Declaration ¶¶ 39-47.

⁴ [Begin Highly Confidential Information]

[End Highly Confidential Information].

⁵ [Begin Highly Confidential Information]
[End Highly Confidential Information].

⁶ See, e.g., [Begin Highly Confidential Information]
[End Highly Confidential Information].

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Record would cost nearly twice as much per covered person in capital expenditures. All told, AT&T estimated that this expansion would cost approximately **[Begin Confidential Information]** \$3.8 billion **[End Confidential Information]**.⁷

[Begin Highly Confidential Information] Given this high cost and AT&T's plan to deploy HSPA+ service to 97% of the population by the end of 2012,⁸ AT&T senior management concluded that it could not justify expanding its LTE footprint beyond the Plan of Record, despite the potential marketing and competitive benefits of doing so. Specifically, AT&T senior management concluded that, unless AT&T could find a way to expand its LTE footprint on a significantly more cost-effective basis, an LTE deployment to 80 percent of the U.S. population was the most that could be justified.⁹ Following that decision, as an initial analysis, AT&T assessed how much it would save and what it would cost (*i.e.*, the "option price") if AT&T attempted to gain efficiencies by performing preliminary LTE design work at the 18,000 sites beyond the Plan of Record, as well as LTE preparatory work at 4,800 of these sites while those sites were being upgraded to HSPA+ in 2012.¹⁰ That analysis resulted in a finding that synchronizing the HSPA+ and LTE work as described above did not produce sufficient savings and that doing so would require about \$220 million in additional capital expenditures in 2011.¹¹

⁷ Hogg Reply Declaration ¶ 40. *See also* **[Begin Highly Confidential Information]**

[End Highly Confidential Information]
[End Highly Confidential Information].

⁸ The decision to deploy HSPA+ to 97% of the U.S. population by the end of 2012 was made in 2010. *See* **[Begin Highly Confidential Information]**
[End Highly Confidential Information]. *See also* **[Begin Highly Confidential Information]**
[End Highly Confidential Information]

[End Highly Confidential Information]. AT&T's plan of record for HSPA+ will result in HSPA+ coverage for virtually all of AT&T's then existing footprint at the end of 2012.

⁹ **[Begin Highly Confidential Information]**

[End Highly Confidential Information].

¹⁰ **[Begin Highly Confidential Information]**
[End Highly Confidential Information].

¹¹ **[Begin Highly Confidential Information]**

Because of the significant cost of deploying LTE beyond the Plan of Record, the budgetary pressure that had already been created by accelerating the 80 percent LTE deployment by a full year, and the additional capital expenditures for the basic prep work required for a limited number of sites, AT&T decided not to move forward with this additional work.¹² This determination sealed the decision not to deploy LTE beyond the Plan of Record. **[End Highly Confidential Information]**

Third, AT&T explained that the transaction changes the calculus for LTE deployment in important respects. Because of the scale, additional spectrum and other benefits resulting from the transaction, AT&T senior management made a business judgment that the merger with T-Mobile USA enables AT&T to expand its LTE build-out to 97 percent of the population.¹³ These benefits include incremental reductions in cost due to the addition of T-Mobile USA resources; greater scale economies, such as higher volume discounts on handsets and equipment; a larger customer base; and the expectation of a higher take-rate for AT&T's LTE service. In addition, the transaction will enable AT&T to re-purpose its existing capital budget allocated to spectrum acquisitions to be allocated for other uses. Overall, the scale and scope of the larger combined wireless business will permit the additional capital investment to be spread over a larger revenue base than would be the case absent the merger. For all of these reasons, AT&T's management concluded that, because the merger with T-Mobile USA results in greater revenues, customers, and overall scale, AT&T could better absorb the increased capital investment and lower returns associated with deploying LTE to over 97 percent of the U.S. population.

Finally, AT&T's increased LTE deployment resulting from this transaction will bring enormous public interest benefits that go far beyond any direct economic benefits to AT&T. Because these benefits are "externalities," they do not accrue to AT&T and they are not factored into AT&T's evaluation of various LTE deployment proposals. But they are nevertheless appropriate for the Commission to consider in connection with the public interest standard it applies in the merger review context. Indeed, the public interest benefits associated with

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[End Highly Confidential Information].

¹² See **[Begin Highly Confidential Information]**

[End Highly Confidential Information].

¹³ The combined company will deploy LTE to more than 97.3 percent of the U.S. population within six years of merger closing. The geographic coverage footprint for this LTE deployment corresponds to the geographic coverage footprint AT&T expects to have by the end of 2013, plus additional T-Mobile USA sites outside of AT&T's expected 2013 footprint.

AT&T's plan to deploy LTE to more than 97 percent of the U.S. population directly advance important national policy goals identified by both the Commission and the Administration.¹⁴

In particular, the Commission has emphasized that "[b]ringing ubiquitous and affordable broadband services to rural America will improve the quality of education, healthcare, and public safety in rural America, among other benefits."¹⁵ It has likewise noted, on a larger scale, that ensuring that all Americans including those in rural areas, have access to such services will help to improve America's economy, its ability to compete internationally, and its unity as a nation."¹⁶ President Obama has also noted the importance of widespread broadband availability, vowing in his 2011 State of the Union address, to "make it possible for businesses to deploy the next generation of high-speed wireless coverage" throughout America.¹⁷ As he put it, the benefits of increased next-generation wireless deployment will be diverse and immense: "farmers and small business owners will be able to sell their products all over the world," firefighters "can download the design of a burning building onto a handheld device," rural students can "take classes with a digital textbook," and a patient in a remote area "can have face-to-face video chats with her doctor."¹⁸ For all these reasons, as the Commission has further recognized, ubiquitous, dependable and affordable broadband has become a "foundation for economic growth, job creation, global competitiveness and a better way of life."¹⁹ As discussed in AT&T's prior filings, our 97 percent LTE commitment will help achieve these national priorities and provide significant public interest benefits beyond the deployment of HSPA+ to many rural and underserved communities that would not otherwise have had our LTE service under AT&T's Plan of Record.²⁰ That is one important reason why such a broad swath of

¹⁴ See *In re Applications of AT&T Inc. & Deutsche Telekom AG for Consent to Assign or Transfer Control of Licenses & Authorizations*, Public Interest Statement of AT&T Inc., Deutsche Telekom AG, and T-Mobile USA, Inc. at 54-61 (April 21, 2011) ("Public Interest Statement").

¹⁵ Federal Communications Commission, *Bringing Broadband to Rural America: Report on Rural Broadband Strategy* at 8, ¶ 15 (May 22, 2009) ("Rural Broadband Report"); accord Federal Communications Commission, *Connecting America: The National Broadband Plan*, at 5, 227, 269 (2010), <http://download.broadband.gov/plan/national-broadband-plan.pdf> ("National Broadband Plan").

¹⁶ *Rural Broadband Report* at 8, ¶ 15.

¹⁷ Barack Obama, *State of the Union Address* (Jan. 25, 2011), <http://www.whitehouse.gov/state-of-the-union-2011>.

¹⁸ *Id.*

¹⁹ *National Broadband Plan*, at xi.

²⁰ Public Interest Statement at 58-61.

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businesses, civic organizations, and state and local leaders have expressed strong support for this transaction.²¹

In accordance with the Protective Order²² and Second Protective Order²³ in the above-referenced proceeding, we are hereby submitting two redacted copies of the filing and a redacted version of the filing in ECFS. In addition, we are submitting an unredacted version of this filing under seal. Finally, pursuant to the directions of the Staff, tomorrow we are submitting two copies of the unredacted filing to Kathy Harris of the Wireless Telecommunications Bureau staff or her designee.

Please contact me regarding any questions.

Respectfully submitted,

Richard L. Rosen (MRT)

Richard L. Rosen
Counsel for AT&T Inc.

cc (via email): Best Copy and Printing, Inc.

Kathy Harris
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Michael Steffen
Tom Peters

²¹ See *In re Applications of AT&T Inc. & Deutsche Telekom AG for Consent to Assign or Transfer Control of Licenses & Authorizations*, Joint Opposition of AT&T Inc., Deutsche Telekom AG, and T-Mobile USA, Inc. to Petitions to Deny and Reply to Comments at 75-79 (June 10, 2011).

²² *In re Applications of AT&T Inc. & Deutsche Telekom AG for Consent to Assign or Transfer Control of Licenses & Authorizations*, WT Dkt No. 11-65, Protective Order, DA 11-674 (WTB rel. Apr. 14, 2011).

²³ *In re Applications of AT&T Inc. & Deutsche Telekom AG for Consent to Assign or Transfer Control of Licenses & Authorizations*, WT Dkt No. 11-65, Second Protective Order (Revised), DA 11-1100 (WTB rel. June 22, 2011).