Senator Klobuchar
Questions following the AT&T/DIRECTV Hearing

For Mr. Wood

1. Should consumers be wary of the fixed wireless local loop offering that AT&T is proposing to offer to 13 million rural customers? Are these fixed wireless IP offerings more expensive? Will this be a competitive option for rural consumers?

Answer:

Yes, consumers should be wary of the suggestion that fixed wireless local loop offerings are a perfect or even close substitute for wired home phone and broadband connections. For one thing, they should be wary of accepting this as a merger-specific benefit. As I noted in my written testimony, AT&T announced in May 2014 that its Wireless Home Phone & Internet service is already available nationwide – with AT&T defining "nationwide" as the territory served by its existing wireless network "which covers more than 99% of all Americans."[1] In light of that announcement, it is hard to understand who these additional 13 million rural customers are, where they live, or what additional benefits the merger supposedly brings them.

More troubling than questions about *who* will receive this allegedly new service are questions about *what* they will receive. Fixed wireless offerings can indeed be far more expensive than wired services, even when the wired options provide far greater capacity. That makes fixed wireless plans a very uncompetitive option for rural consumers, at least on price.

For example, "AT&T's fixed LTE service runs $60 a month with a 10 Gigabyte cap, $90 per month for 20 GB, or $120 for 30 GB. Once that cap is exceeded, AT&T charges $15 per 1 GB of data."[2] That pricing structure compares very unfavorably to AT&T's wired "residential" and "U-verse High Speed Internet service" plans. The residential plan customers are allotted 150 GB per month by AT&T – or five times more than the apparent top tier for the current fixed wireless offering – while U-verse users receive 250 GB per month.[3]

While prices may vary from geographic market to geographic market, the base or introductory rate for these wired broadband services maybe as low as $14.95 to $29.95 per month, for the aforementioned 150 to 250 gigabytes.[4] The fixed wireless plans apparently start at $60 per month (twice as much money) for 10 gigabytes (one-fifteenth of the data). The overage fees are dramatically lower for the wired services too, with a $10 charge for every 50 GB increment over the cap. The same "extra" 50 GB on a fixed wireless plan, at the rates announced by AT&T in May, would cost the customer an incredible $750 – or seventy-five times more.

[1] *See* AT&T Consumer Blog, "AT&T Wireless Home Phone & Internet Goes Nationwide, and So Can You," May 22, 2014 (available at http://blogs.att.net/consumerblog/story/a7795364).
[2] *See* Jeff Baumgartner, "AT&T's Fixed Wireless Service Goes Nationwide," *Multichannel News*, May 23, 2014. (available at http://www.multichannel.com/news/technology/att-fixed-wireless-service-goes-nationwide/ 374744).
[3] *See* AT&T Broadband Usage FAQs, "High Speed Internet Support" (last visited July 28. 2014) http://www.att.com/esupport/article.jsp?sid=KB409045&cv=801#fbid=1wctqva16Dz.
[4] *See* AT&T U-verse High Speed Internet "Shop" page (last visited July 28. 2014) http://www.att.com/shop/internet/u-verse-internet.html.

2. This merger is primarily about video service, but mobile phone service is relevant as well because this merger involves one of the top two wireless carriers and we are beginning to see wireless, broadband and video markets converge. AT&T will gain significant relationships by acquiring its DIRECTV's 20 million subscribers. What's the significance of this deal to the wireless industry and how could it impact wireless competition?

Answer:

This merger is indeed relevant to – and problematic for – the pay-TV, fixed broadband, and mobile wireless markets, whether consumers purchase those products separately or as a bundle.

As I noted in my written testimony, there is some question from analysts about the cost synergies and savings that AT&T truly would experience from this merger. But whatever savings the company experiences, even more doubtful than the size of these benefits for the merging parties is whether or not they would pass these savings along to consumers.

There is no real indication from AT&T that any synergies would translate to price reductions, and Mr. Stephenson was hesitant to offer a clear answer to direct questions on this topic at the hearing. Nor is there any likelihood that customers would see price reductions in an uncompetitive market. AT&T's only motivation and likely course of action will be to pocket any savings and send them to shareholders, rather than offering them to customers or investing them in networks. The deal may be significant for AT&T's bottom line, yet could lead to increased revenues and profits for the company with no increased benefits for customers.

AT&T may intend to provide more video content to its mobile wireless customers as a result of acquiring programming rights as it acquires DIRECTV, and it may attempt to pitch this increase in video content as both a spur to competition and a benefit to mobile wireless subscribers. But as in all cases, the value and net benefit of such offerings for consumers must be measured by examining the actual options presented to them – not by reference to any new content or packages that wireless customers are *forced* to purchase automatically in a bundle.