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A battle between the big telecommunications companies and 32 of their small, rural competitors is simmering at the Capitol. The aftermath could translate into a spike in phone bills for one-in-six landlines in the state.

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The conflict centers on a bid to extend the life of a fund used to lower the cost of rural phone service. Big phone companies are fighting back, saying the plan doesn't reflect the changes in the telecommunications market as more people abandon basic landline phone service in favor of cellphones. They want the state to get rid of the aid for the rural phone companies by the beginning of 2017.

The universal service fund splits about \$32 to \$34 million a year among 32 small phone companies that serve about 16 percent of the landline phone numbers in the state. A bill before the state House consumer affairs committee would extend the life of the fund through 2021. The legislation would also direct the Public Utility Commission to determine whether the fund is still needed after that, and whether it ought to be

changed.

That worries the big telephone companies. About 240 telecommunications companies pay into the fund, but wireless companies are not required to contribute. The universal service fund has paid the small phone companies almost half a billion dollars in the past 15 years. The extension would give them another \$200 million. Supporters say the cost is worth it because it helps ensure residents in rural Pennsylvania can afford basic phone service.

Economies of scale would make it difficult for the small companies to keep costs under control without the subsidy, said state Rep. Mark Longietti, D-Mercer County, a member of the consumer affairs committee. The Federal Communications Commission has

as AG

New York Times

As Donald Trump and Jorge Ramos Clash, Latino News Media Airs Its Offense

moved to shift away from subsidies to reduce rural phone bills and toward expansion of Internet broadband, he said. That leaves the state's subsidy program as the only crutch left to help the small phone companies.

Pennsylvania's acting consumer advocate Tanya McCloskey compared the situation to cable and wireless phone service. In those sectors, there is no requirement that all of Pennsylvania is covered, so there are some rural areas without cable and poor cell phone service. The universal service fund solves that problem for basic phone service, she said. The AARP supports keeping the fund in place, too. The group's advocacy manager described the fund as a way of guaranteeing a level playing field for telephone customers. "We believe it provides modest, necessary support for those in hard-to-serve areas," said Ray Landis, the AARP's advocacy manager in Harrisburg.

He defended the fund's design — which has all phone customers paying to subsidize the phone bills in rural Pennsylvania. "Frankly, it takes away the value of a telephone for every citizen of Pennsylvania if someone in a more populated area can't call their aunt or uncle in a rural area because telephone service is too expensive there," he said.

Pennsylvanians are less likely to have abandoned their landline phones than people across the country, Longietti said. Almost half the homes in the U.S. only have wireless phone service. In Pennsylvania, the number is closer to one-quarter. The state has a large older population and cellphone service in much of rural Pennsylvania is still spotty. A poll by AARP found that most of its members have cellphones but still rely heavily on their landline phones to make and receive calls.

In testimony provided to the legislative committee, a Verizon lobbyist noted that the payments to small phone companies have continued to exceed \$30 million a year even as the number of landlines subsidized has tumbled. Verizon argues that the fund payments would only be about \$11 million if they were adjusted to reflect the decline in landlines since the universal service payments began.

Steve Samara, president of the Pennsylvania Telephone Association, said that argument is misleading. His group represents the small phone companies that depend on the universal service fund. While the number of people with landlines is decreasing, the cost of operating the systems isn't going away. The cost per landline just goes up. "If a person drops their landline, we don't go out and dig up the copper lines," he said.

Verizon and other big telecommunications companies are also lobbying to get the legislation amended so that the PUC cannot begin taxing cellphones and other wireless technology to subsidize the rural landline bills. "Verizon contributes to the fund but doesn't get any money from it, so its customers essentially pay into a fund that the (rural phone companies and their) customers benefit from," said Lee Gierczynski, a Verizon spokesman. Expanding the tax to include wireless technology would only make matters worse, he said. — *Meadville Tribune*

Signals for one of the nation's biggest local broadcasters went dark on satellite TV distributor Dish Network Corp. on Tuesday, the result of a dispute over a new distribution contract.

Dish and Sinclair Broadcast Group Inc. have been negotiating a contract that covers more than 150 local television stations owned or managed by Sinclair that reach more than five million customers in 79 markets. The signals were pulled from Dish after efforts to sign a new agreement or extend the existing one failed.

Besides owning 121 TV stations, Sinclair also manages 32 through partnerships. Of the 153 stations, 87 are affiliates of the four major broadcast networks— CBS, NBC, ABC and Fox—meaning customers lost access to local and national news programming as well as sports carried by those stations. Dish said 129 stations in 36 states and the

District of Columbia had been pulled from its service. An additional 23 stations that Sinclair negotiates distribution agreements for remain on Dish.

In a statement, Dish said it had come to terms with Sinclair on fees to carry its TV stations but the broadcaster was holding out to try to leverage distribution for a cable channel it does not yet own. Dish declined to provide details, but Sinclair has expressed interest in starting its own cable network focused on high school and college sports. "Sinclair rejected our extension offer and has chosen to use innocent consumers as pawns to gain leverage for the economic benefit of Sinclair, while causing substantial harm and disruption to the lives of consumers," said Warren Schlichting, Dish's senior vice president of programming. Sinclair General Counsel Barry Faber confirmed the broadcaster's signals were out of Dish homes but declined further comment.

Negotiations between Dish and Sinclair got ugly two weeks ago when the satellite broadcaster filed a complaint at the Federal Communications Commission that accused Sinclair of failing to negotiate in good faith on the retransmission contract. Furthermore, Dish said Sinclair was violating FCC rules by forcing Dish to negotiate with them for stations they don't technically own. The two companies agreed to a short-term contract extension at the time.

Last March, the FCC passed new rules prohibiting a broadcaster from negotiating on behalf of a station it doesn't own but rather operates through a so-called joint sales agreement. Many broadcasters operate more than one station in a particular market through such pacts. Broadcasters say it allows for cost-savings and the ability to produce more local content. But program suppliers and pay-TV distributors have often argued that joint sales agreements give a local broadcaster too much leverage in contract negotiations. "Dish explicitly requested 'Sinclair stop coordinating negotiations or negotiating on a joint basis' for the stations in Sinclair's proposal that Sinclair does not have de jure control over," Dish said in its complaint two weeks ago.

Sinclair countered that it "disagrees with your legal conclusion that we have offered to negotiate on behalf of any stations with respect to which we do not have 'de jure' control," according to an email from Sinclair that Dish attached to the complaint. Sinclair said the stations in question are grandfathered from the new regulations.

The blackout comes at a tough time for Dish, which has been losing subscribers from consumers cutting the cord in favor of lower-cost Internet alternatives. In its second-quarter report earlier this month, Dish said it lost 81,000 pay-TV customers, compared with a loss of 44,000 a year earlier. Before the current dispute, Dish had been involved in 32 of the 74 retransmission consent disputes that have resulted in TV blackouts since January 2012, according to the National Association of Broadcasters. Sinclair, in an earnings call earlier this month, noted that the retransmission rights for 75% of its subscriber base were up for renewal over the next 12 months, giving the company an opportunity to reset the fees it receives under those deals. — *Wall Street Journal*

A battle is brewing among tech giants over the future of Wi-Fi, the ubiquitous and unregulated wireless connections at the core of the mobile Internet.

Verizon Communications Inc. and T-Mobile US Inc. are preparing to broadcast cellular signals over some of the same free airwaves currently used by Wi-Fi networks. The wireless carriers plan to begin rolling out the technology next year. That worries startups like Republic Wireless as well as companies like Google Inc. and Cablevision Systems Corp. that have built services that rely on Wi-Fi networks. They argue Verizon's and T-Mobile's signals could take up space Wi-Fi services normally use and crowd them out. Wi-Fi networks—in homes, offices, airports and coffee shops—already carry more than half of mobile data usage globally.

Google officials wrote a letter in June to the Federal Communications Commission

urging caution. Google said the new technology is “particularly worrisome” because wireless carriers “may view some Wi-Fi providers, such as cable companies offering Wi-Fi hot spots to their customers, as competitors.” Verizon and T-Mobile say the expansion is needed to manage the surging consumer demand to stream videos and surf the Web on smartphones and tablet computers. The carriers say using the unlicensed airwaves is an inexpensive way to quickly increase capacity and speed on their congested networks. They say the new technology, called LTE-U, can coexist with Wi-Fi harmlessly. “Wi-Fi is very important to us because it’s very important to our customers,” said Patrick Welsh, director of federal government affairs at Verizon. “Every test that we’ve done shows that LTE-U is as good of a neighbor to Wi-Fi as Wi-Fi is to itself.”

The debate has turned political. Late last month, six Democratic senators wrote a letter to FCC Chairman Tom Wheeler expressing concern of possible Wi-Fi harm and asking him to intervene. The FCC has opened a proceeding to study the issue. The supporters of LTE-U insist there is no need for rules or any intervention, and point out that the airwaves Wi-Fi uses aren’t limited to a single technology. A senior FCC official said the agency is monitoring the situation and doesn’t expect to take any action at this time, but is considering the submitted comments. The existing rules for using unlicensed spectrum are light. They only limit transmission power and ensure that signals don’t bleed into other channels.

The new LTE-U technology is a modified version of the fourth-generation cellular standard that carriers use to route phone calls and data on their networks. Wi-Fi operates over unlicensed airwaves, checking for an open channel before broadcasting. LTE-U checks, but will broadcast on the least congested channel rather than wait for an open one. That means that Wi-Fi signals could get shoved around, critics say, and reduce the speed and quality of their connection.

Earlier this month, Julius Knapp, the head of the FCC’s Office of Engineering and Technology, wrote a letter to Verizon and other backers of LTE-U asking technical questions about the technology, including why it would be able to transmit on an already occupied channel. Verizon created a group called the LTE-U Forum in April 2014 along with equipment vendors such as Qualcomm Inc. and Ericsson to develop the technology. That process is taking place alongside efforts at international bodies to create standards for similar technology. Unlike LTE-U, the global standards are expected to have a “listen before talk” mechanism similar to Wi-Fi.

Verizon and T-Mobile say they aren’t going to wait for the international groups to finish setting those standards. Both carriers say they plan to begin adding LTE-U radios to their networks next year, potentially giving them a two-year lead over operators that wait. “We are going way, way, way beyond what anyone could require in rules to make sure it will work well,” said Dean Brenner, Qualcomm’s senior vice president for government affairs.

AT&T Inc., which operates a large network of Wi-Fi hot spots, has urged the FCC to not set new regulations around the use of unlicensed airwaves but hasn’t set any plans to launch LTE-U. A spokesman for the company said it is “supportive of LTE use of unlicensed bands as long as it can properly coexist with Wi-Fi.”

The debate over the new technology comes as the price for licensed airwaves is rising. The FCC’s last auction raised more than \$40 billion, including \$18.2 billion from AT&T and \$10.4 billion from Verizon. An auction set for 2016 might raise more. The cost makes it hard both for new businesses to enter the market and established ones to maintain their networks. Verizon said earlier this year that airwaves had become so expensive it would look to new technologies to improve network speeds.

Meanwhile, consumer reliance on Wi-Fi has grown significantly. Wi-Fi first gained popularity in the early 2000s after it became standard on Apple Inc. computers, allowing

users to access the Internet without plugging their computers into a cable. Then, wireless carriers encouraged customers to log on to Wi-Fi with their smartphones as a way to ease network congestion. Consumers got used to the typically faster Wi-Fi speeds—and importantly, their lack of data caps—helping fuel Wi-Fi’s growth.

Upstarts like Republic Wireless and Scratch Wireless Inc. offer cheap cellphone service that runs primarily over Wi-Fi signals and only falls back to cellular networks when Wi-Fi is out of range. Firms like Google and Cablevision are also using Wi-Fi to offer similar services. All of the efforts are nascent, and have tiny subscriber bases compared with the more than 100 million subscribers on Verizon. Wi-Fi is the only alternative network to wireless carriers, said David Morken, co-founder and chief executive of Republic Wireless, a division of Bandwidth.com Inc. “It is in their best interest, and importantly perhaps strategic long-term interest, to marginalize Wi-Fi as much as possible as an alternative open, creative ecosystem,” Mr. Morken said of the carriers.

Verizon and other wireless carriers reject the idea they intend to harm Wi-Fi. They say their intentions are only to improve the wireless experience for existing customers. Ericsson says the addition of LTE-U could improve network speed by 150 megabits per second, a considerable bump over current cellular networks. Harold Feld, senior vice president at Public Knowledge, a consumer-advocacy group, said Wi-Fi is too important to wait and see how LTE-U affects it. Even if the impact is minimal, allowing LTE-U to proliferate could give carriers the ability to slowly strangle Wi-Fi, he said. “You don’t have to kill it to make a really potent weapon against the competing services,” he said.
– *Wall Street Journal*



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