



September 9, 2008

The Honorable Daniel Inouye
722 Hart Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Kay Bailey Hutchison
284 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

Dear Chairman Inouye and Ranking Member Hutchison:

Consumers Union is troubled by the state of wireless “competition,” and we urge your committee to investigate why consumer prices are going up instead of down in this supposedly competitive industry. Companies lock consumers into long-term contracts with early termination penalties, and matters may soon get worse for consumers as the field shrinks, with Verizon Wireless’s \$28 billion purchase of Alltel.

Today we would ask you to focus on one issue in particular—exorbitant increases from all the major carriers in the cost of text messaging.

In recent years, all of the largest wireless companies have dramatically raised prices on text messaging services, in many cases more than doubling their rates—making consumers paying twice, both to send and receive messages.

Is such an increase a result of an over-burdened wireless network? No. In fact text messaging uses less data than any other service on the network. Six hundred text messages contain less data than one minute of a phone call.¹ At 20 cents per message, the wireless carriers would collect \$120 at the per message rate for those 600 text messages—and \$240 if we count consumer costs both to send and receive!

Does \$120 for the equivalent of one minute of voice seem reasonable? Or do these usurious rates evidence an extraordinary amount of market power?

More importantly, why in an ostensibly competitive market are carriers *raising* prices on this ultra-low bandwidth service, one after another? Is this story perhaps as simple as parallel behavior in a tight oligopoly market?

In the most recent round of text messaging rate increases, Sprint raised its text rates from 15 to 20 cents on Oct. 1, 2007. Verizon matched the rate increase on March 1, 2008.

¹ One prominent wireless carrier’s codec transmits at approximately 12.2 kilobits per second (kbps). 12.2 kilobits is the same amount of data as 10.89 completely full text messages. Furthermore, those numbers assume users fill all 160 characters, but most of us don’t even come close. Assuming senders use only 20 characters on average, 3,240 texts have less data than one minute of phone airtime, and would cost \$648 at the per message rate (not including costs to the receiver, \$1296 if we include them).

AT&T did the same, increasing its text price from 15 to 20 cents on March 30, 2008. T-mobile followed suit Aug. 29, 2008.

In a vibrantly competitive market, wouldn't providers be fighting to gain customers by lowering prices, not raising them?

One might think that consumers could easily switch carriers to avoid these usurious rate increases. Unfortunately, all the major carriers have been united in the use of egregious early termination penalties. These penalties are said to recoup losses from subsidized phones when a customer drops out of a carrier's one- or two-year contract. But in the best data we have seen so far, the wireless carriers only provide consumers with an average subsidy of \$14.33. Even though some carriers now offer a partial pro rate of these penalties, they all start at an egregiously high level—at least \$175—more than 10 times the so-called “subsidy” they offer. This is not a free or fair marketplace in which consumers can freely choose the best service provider.

Consumers Union thinks something is afoot in the wireless industry, and urges the committee to examine these practices and demand justification for these dramatic rate increases. The industry's continued consolidation and apparently parallel behavior clearly warrant further government scrutiny.

Thank you.

Respectfully,



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Cc: Hon. Mark Pryor
Hon. Jay Rockefeller