

Determination of Winners, 3

- Acceptance rule accepts more bids when bids are close together
 - » Allows benefit of competition “in the market” when cost, in additional support, is low
 - » When bids are far apart, the cost of having more COLRs is greater, so fewer COLRs accepted
- Commission can vary the tradeoff among policy goals by choosing different parameters
 - » Wider range: more COLRs, but higher cost
 - » Narrower range: lower cost, but fewer COLRs

Determination of Support Amount

- **All firms whose bids are accepted receive same support per customer**
 - » Achieves competitive neutrality among COLRs “in the market”
- **Support is at level of highest accepted bid**
 - » Ensures that support is sufficient
 - No carrier has to serve at less than its bid
 - » Outcome similar to competitive market
 - “price” is set by a marginal firm
 - » Does not affect expected value of support
 - Bidders adjust their bids according to payment rule
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Bid Withdrawal Rules



- Once auction results are announced, bidders are given an option to withdraw
 - » Lowest bidder gets first option, others in sequence
 - » Support is recomputed as though withdrawn bids had not been made
 - » Withdrawal cannot leave SA without a COLR

Exceptions

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- If there are no qualified bids, or if the ILEC is the sole bidder, then the ILEC continues as COLR and receives
 - » the original support level, if it did not apply to exit
 - » the reserve price, if it did apply to exit

Post-Auction Implementation



■ Assumption of COLR obligations

- » If no change of COLRs, new support applies 10 days after close of auction
 - If there is a change of COLR, new support applies 10 days after date of change
- » If COLR is newly designated, then maximum transition period is:
 - 90 days if ILEC is also COLR
 - One year if ILEC is not COLR

Post-Auction Implementation,2



■ Measures to ensure performance

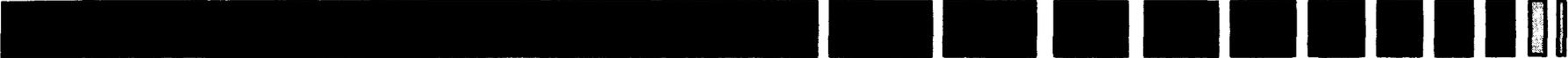
- » New COLRs post bond when auction results announced
- » Halfway through transition period, new COLR submits implementation plan to PUC
- » Substantial penalties for non-performance
 - Financial penalties
 - Carrier barred from future auctions

Post-Auction Implementation, 3

■ Terms of COLR Obligation

- » **If auction results in change in the number and identity of COLRs, no new nominations accepted for 3 years**
 - Establishes term of “contract” between PUC and COLR -- Allows bidder to plan recovery of investment
- » **If auction does not change identity or number of COLRs, area can be nominated at next 6 month window**
 - No protection for ILEC if it is the only winner

Changes to COLR Obligation



- Commission may review and modify COLR obligation, including basic service definition
 - Subsequent auctions will be based on COLR obligation posted at time of nomination
 - Existing COLR obligations are not affected until area is rebid
 - Reserve should reflect modified obligation

Transfer of COLR Obligation



- Any COLR may transfer or sell its obligation to any other QB at any time
- But transfer cannot reduce the number of COLRs in an area

Market Factors That Affect Auction Design



■ Synergies

- » Cost of being COLR in area A may depend on whether carrier is also COLR in area B



■ Economies of Density

- » Cost depends on how many COLRs share market

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Auction Design to Accommodate Synergies

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- GTE's proposed auction design makes some provision for synergies:
 - » Bids within a given range accepted
 - » Option to withdraw
 - » Ability to transfer COLR obligations after auction
 - More complex design could more fully account for synergies

Auction Design to Accommodate Economies of Density

- Each bidder submits two bids
 - » Second bid reflects bidder's estimate of difference in cost if it must share market with other COLRs
- Lowest bidder is firm with lowest first element; others accepted if their second element is within range of lowest bid
- Support based on highest accepted bid
 - » Design prevents gaming; lowest bidder is compensated based on highest accepted bidder's estimate of economies of density