

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of

Competitive Bidding Procedures for Broadcast
Incentive Auction 1000, Including Auctions
1001 and 1002

)
)
)
)
)

AU Docket No. 14-252
GN Docket No. 12-268

To: The Commission

VERIZON REPLY COMMENTS

Kathleen M. Grillo
Of Counsel

John T. Scott, III
Christopher D. Oatway

1300 I Street, N.W.
Suite 400-West
Washington, D.C. 20005
(202) 515-2412

Its Attorneys

March 13, 2015

TABLE OF CONTENTS

SUMMARY 1

I. THERE IS NO BASIS TO EXPAND THE SET-ASIDE ESTABLISHED IN THE
MOBILE SPECTRUM HOLDINGS ORDER 3

 A. The Results of the AWS-3 Auction Prove Conclusively that the FCC Does Not
 Need To Protect Competitors in the Incentive Auction 3

 B. Sprint and T-Mobile Offer No Basis to Expand the Set-Aside or its Impact 5

 C. Increasing the Price Trigger for the Set-Aside Will Simplify Bidding and Reduce
 the Risk of Auction Failure 6

 D. Parties Agree that the Commission Should Allow the Auction to Close Once it
 Covers the Expenses Set Forth in the Spectrum Act 8

II. THE COMMISSION SHOULD LIMIT IMPAIRED LICENSES, SIMPLIFY THE
FORWARD AUCTION AND REDUCE UNCERTAINTY FOR BIDDERS 8

 A. Licenses With Impaired Service Coverage Should Be Limited to Border Areas 8

 B. The Commission Should Place Any TV Stations That Must Remain in the New
 600 MHz Band in the Uplink Spectrum 11

 C. The Commission Should Explain the Mechanics of Auction Participation to
 Potential Bidders Well in Advance of the Auction 11

CONCLUSION 13

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of)	
)	
Competitive Bidding Procedures for Broadcast)	AU Docket No. 14-252
Incentive Auction 1000, Including Auctions)	GN Docket No. 12-268
1001 and 1002)	

To: The Commission

VERIZON¹ REPLY COMMENTS

SUMMARY

The commenters in this proceeding overwhelmingly agree that the Commission should not add unnecessary complexity to an already complex auction. That means not over-complicating the auction and risking its success by increasing the spectrum set-aside or amplifying its discriminatory effects. It also means adopting spectrum clearing procedures that enhance the value of the spectrum being sold, encourage broad participation and increase auction revenues. The Commission should:

1. Reject requests to increase the size of the set-aside or to amplify its effects. A few commenters ask the Commission to increase the amount of spectrum set aside, eliminate the price trigger, relegate Verizon and AT&T to bidding on the most-impaired licenses, and ensure that favored bidders can artificially drive up the prices paid by their rivals for unreserved spectrum. The Commission should reject these proposals out of hand, particularly in light of the results in the recent AWS-3 auction, which prove that competitors that want and bid for spectrum can win it.

¹ In addition to Verizon Wireless, the Verizon companies participating in this filing are the regulated, wholly owned subsidiaries of Verizon Communications Inc. (collectively “Verizon”).

2. *Set a substantially higher price that triggers the set-aside.* This will increase the likelihood of a successful auction and reduce the ability of bidders to take advantage of the set-aside to drive up the prices Verizon and AT&T pay for unreserved spectrum.

3. *Allow the auction to close once it raises enough revenue to cover the expenses set forth in the Spectrum Act.* Commenters agree that instead of establishing an arbitrary closing price, the Commission should adopt the closing conditions Congress established.

4. *Establish a near-nationwide band plan that subjects mobile licenses to broadcaster interference only at the borders.* Numerous parties agree that the proposal to impair up to 20 percent of the population nationwide is flawed. It would deter bidder interest, suppress forward auction revenues and risk auction failure. The Commission should avoid impairing any markets, except in border areas where it is not possible to clear foreign broadcasters.

5. *Place any TV stations that must remain in the new 600 MHz band in uplink spectrum.* There is consensus that TV stations should be relocated to the uplink band, not in the downlink band or duplex gap. A near-nationwide clearing target, however, would minimize the number of such stations in the first place, and should be adopted for this reason as well.

6. *Explain the mechanics of auction participation well in advance.* The Commission should make sure forward auction bidders have technical and administrative information well in advance of the application deadline. For example, the Commission should hold multiple mock auctions and webinars to enable qualified bidders to become familiar with the FCC's system and to practice submitting bids.

I. THERE IS NO BASIS TO EXPAND THE SET-ASIDE ESTABLISHED IN THE MOBILE SPECTRUM HOLDINGS ORDER.

The Commission should reject proposals to steer even more subsidized spectrum to favored bidders while driving up costs to their competitors. T-Mobile, Sprint and others propose to increase the size of the set-aside in order to further insulate themselves from bidding competition from Verizon and AT&T,² eliminate the price trigger for the set-aside so they qualify for subsidized licenses even when auction prices are well below market levels,³ relegate Verizon and AT&T to bidding on the most-impaired licenses,⁴ and enable favored bidders to artificially drive up the prices paid by Verizon and AT&T for *unreserved* spectrum.⁵ Not surprisingly, they fail to supply data or any evidence that the set-aside the Commission chose initially will not fully achieve the policy goals behind it. The Commission should reject their proposals out of hand.

A. The Results of the AWS-3 Auction Prove Conclusively that the FCC Does Not Need To Protect Competitors in the Incentive Auction.

As Verizon explained in its Comments, the AWS-3 auction demonstrates conclusively that a bidder can win licenses in an auction *if* that bidder (or its parent) is willing to finance robust participation. T-Mobile's and Sprint's parents are among the best-capitalized companies in the world and are in a position to acquire substantial amounts of spectrum at the Incentive Auction *if* doing so at market prices suits their business needs.

² T-Mobile Comments at 2-3; CCA Comments at 29. *See also* T-Mobile Petition for Reconsideration, *Policies Regarding Mobile Spectrum Holdings*, WT Docket No. 12-269 (Aug. 11, 2014) ("T-Mobile Mobile Spectrum Holdings PFR"); Sprint Reply Comments in Response to Opposition to T-Mobile Petition for Reconsideration, *Policies Regarding Mobile Spectrum Holdings*, WT Docket No. 12-269 at 3-7 (Oct. 6, 2014).

³ Sprint Comments at 47. *See also* T-Mobile Mobile Spectrum Holdings PFR.

⁴ T-Mobile Comments at 6-8; Cellular South Comments at 4; Rural Wireless Association & NTCA Comments at 3.

⁵ *See* Sprint Comments at 47-48 (requesting that the size of the reserve pool be guaranteed throughout the auction so favored bidders can bid on unreserved spectrum without risking a reduction in the size of their reserve pool); *cf.* T-Mobile Comments at 8-9.

The facts of the AWS-3 auction completely undercut T-Mobile's and Sprint's claims that the Commission must change the rules to favor their participation. Of the 31 applicants that won licenses, one entity bought more licenses and more spectrum, and covered more POPs, than anyone else – and it was not Verizon or AT&T. In fact, DISH and its two 85 percent owned entities (new entrants that applied as “very small businesses”) accounted, on a gross dollar value basis, for 50% of all new bids placed in the auction – nearly three times what Verizon bid and more than T-Mobile, Verizon and AT&T bid combined. Sprint skipped that auction altogether, and if any bidder impeded T-Mobile from buying the spectrum it wanted, that bidder was DISH. T-Mobile was outbid by DISH 132 times, but was outbid by AT&T only 26 times and Verizon only 16 times. Moreover, in head-to-head final bids for licenses, T-Mobile outbid Verizon *twice* as often as Verizon outbid T-Mobile. Of the 141 licenses T-Mobile won, it beat Verizon's previous high bid on 32 of them. Of the 181 licenses Verizon won, it beat T-Mobile on only 16. These results undermine assertions that Verizon or AT&T might foreclose other bidders from acquiring spectrum even if those other bidders are determined to acquire spectrum.

The commenters seeking a more aggressive set-aside ignore the intense competition currently taking place among all of the players in the wireless industry. Sprint and T-Mobile both have plenty of spectrum to compete aggressively, as their CEOs regularly acknowledge to Wall Street investors. Sprint holds 197 MHz of spectrum, nearly twice as much Verizon. And T-Mobile recently touted its “tremendous runway” of overall spectrum capacity and its purchase of 700 MHz A block low-band spectrum on the secondary market (most of which was sold to it by Verizon).⁶ It declared that “we are interested in the rolling up of the A block,” but that “you

⁶ Remarks of Braxton Carter, T-Mobile Executive Vice President and CFO, Thomson Reuters Transcript of T-Mobile US Inc. at Deutsche Bank Media, Internet & Telecom Conference (Mar. 9, 2015), at 5. The fact that Verizon sold T-Mobile a very large swath of low-band spectrum obviously shows that Verizon is not attempting to keep that input out of competitors' hands.

always have the broadcast auction as a backup” to the secondary market.⁷ Given these facts, there is no basis for the Commission to protect Sprint and T-Mobile against competition in the Incentive Auction, let alone give them the even greater protection they ask for.

B. Sprint and T-Mobile Offer No Basis to Expand the Set-Aside or its Impact.

Sprint and T-Mobile offer nothing in terms of facts or data that justify changing the current set aside rule as they propose. Sprint and T-Mobile do not argue that additional restrictions on Verizon and AT&T are necessary to mitigate the perceived risk of an anticompetitive outcome (nor could they). Instead, they ask the Commission to embrace different policy goals entirely. Sprint vaguely asserts that the Commission needs to subsidize its spectrum inputs because otherwise the “current spate” of retail wireless competition is purportedly unsustainable.⁸ T-Mobile asserts that the Commission’s goal should be to “inject” additional competition into the wireless industry by expanding the restrictions on Verizon and AT&T.⁹ Neither supplies any factual basis for these proposed new objectives, let alone why they would warrant enlarging the set-aside so that T-Mobile and Sprint would enjoy even more protected access to spectrum.

T-Mobile and others also unsurprisingly support the Public Notice’s proposal to amplify the impact of the set-aside by placing the most-impaired licenses in the unreserved spectrum, thereby steering the “good” licenses to the favored bidders and preventing Verizon and AT&T

⁷ *Id.* at 7.

⁸ Sprint Comments at 9-10.

⁹ T-Mobile Comments at iii. The Public Interest Spectrum Coalition (PISC) did not file comments but suggests in an *ex parte* letter that the Commission’s spectrum policy should be to ensure that *existing* mobile broadband providers (and inexplicably, new entrants do not count) acquire substantial amounts of new spectrum. *Ex Parte* letter from PISC to The Honorable Tom Wheeler, FCC, Docket Nos. 12-269 and 12-268 (Feb. 24, 2015). PISC’s arguments lack any supporting data or other factual support.

from bidding on the more attractive ones.¹⁰ The best way to address this issue is render it moot by not impairing any markets outside of border areas in the first place. But if the Commission misguidedly decides to auction a mish-mash of highly-impaired and unimpaired (or lightly impaired) licenses in some markets, there is no basis for amplifying the effects of the set-aside by relegating Verizon and AT&T to the worst licenses. Relegating Verizon and AT&T to bidding for the less desirable licenses would create harmful bidding distortions that would suppress forward auction revenue. For example, Verizon and AT&T would be able to bid on high-quality licenses as long as the set-aside has not been triggered, but at that point would be relegated to competing for different, lower-quality licenses. This discriminatory “bait and switch” rule would create uncertainty as to which licenses Verizon and AT&T could ultimately win that may deter bidding.

C. Increasing the Price Trigger for the Set-Aside Will Simplify Bidding and Reduce the Risk of Auction Failure.

While imposing any set-aside will unavoidably add complexity to the auction and distort bidding, the risk that those problems will result in auction failure can be substantially reduced by setting a meaningful price trigger. Verizon has explained in detail that the rationale for the set-aside – to mitigate a theoretical risk of foreclosure – will not at all be compromised if the proposed trigger price of \$1.25 is increased substantially.¹¹ Increasing the trigger substantially would also attenuate many of the risks that the set-aside poses to the auction’s success.

Dr. Leslie Marx, an auction expert and former FCC Chief Economist, has explained that there is a real risk that any bidding restrictions in the Incentive Auction “would potentially

¹⁰ T-Mobile Comments at 6-8; Cellular South Comments at 4; Rural Wireless Association & NTCA Comments at 3.

¹¹ See Verizon Comments at 10-13.

overcomplicate an already complex auction.”¹² She explains that the two-sided nature of the Incentive Auction makes it particularly sensitive to the distortions created by bidding restrictions, and that “the risks and costs of auction failure are further heightened by the overall complexity of the Incentive Auction and the significant difficulties associated with reallocating spectrum from broadcast to mobile wireless at a later date, if it is not reallocated as part of the Incentive Auction.”¹³ Minimizing the effect of any auction restriction will reduce the risk of causing this highly complex two-sided auction experiment to fail. Absent eliminating the set-aside altogether, the best way to minimize the risk of auction failure is to increase the price trigger to a level that, while mitigating any theoretical foreclosure threat, does not create unnecessary distortions.

Setting a meaningful price would also help mitigate the incentive and ability that the favored firms – including large nationwide competitors – will have to artificially drive up the prices that their rivals Verizon and AT&T pay for unreserved spectrum. Such insincere bidding by favored bidders is a real risk. For example, in Canada’s AWS-1 auction, firms that qualified for the set-aside could (and did) bid on the unrestricted spectrum in ways that drove up the prices paid by firms unable to bid on set-aside spectrum, even though they had no intention of actually acquiring any of that higher-priced spectrum.¹⁴ One new entrant continually placed bids on an unrestricted license despite the fact that an identical license was available in the set-aside pool for as little as one-seventh the price. Only late in that auction did that bidder finally shift its

¹² See Leslie M. Marx, *Economic Analysis of Proposals that Would Restrict Participation in the Incentive Auction*, ¶ 25, attached to Letter from Tamara Preiss, Verizon, to Ruth Milkman *et al.*, FCC, GN Docket No. 12-268 (Sept. 18, 2013).

¹³ *Id.*, ¶ 2.

¹⁴ See, e.g., Christian Michael Dippon, NERA Economic Consulting, *Regulatory Policy Goals and Spectrum Auction Design: Lessons from the Canadian AWS Auction*, at 28-38 (July 14, 2009), available at [https://www.ic.gc.ca/eic/site/smt-gst.nsf/vwapj/dgrb-001-09-NERA-replyComments.pdf/\\$FILE/dgrb-001-09-NERA-replyComments.pdf](https://www.ic.gc.ca/eic/site/smt-gst.nsf/vwapj/dgrb-001-09-NERA-replyComments.pdf/$FILE/dgrb-001-09-NERA-replyComments.pdf).

bidding to the less expensive pool of set-aside spectrum.¹⁵ While there may be other policies the Commission could implement to address this risk of such anticompetitive behavior by T-Mobile and Sprint,¹⁶ the concern is largely addressed by an appropriate and thus substantially higher set-aside trigger price.

D. Parties Agree that the Commission Should Allow the Auction to Close Once it Covers the Expenses Set Forth in the Spectrum Act.

Although there is disagreement between favored and disfavored bidders about the trigger price for the set-aside, there is consensus that there are sound policy reasons to reduce or eliminate the Commission’s proposed \$1.25 price for when the auction can close. As Verizon explained, the policy considerations for setting the closing price for when the auction can close are unrelated to the policy issues relevant to the set-aside trigger – and they militate in favor of reducing or eliminating the per-unit price for when the auction can close.¹⁷ T-Mobile and the Competitive Carriers Association agree, and previously filed petitions for reconsideration in this docket arguing for the elimination of the per-unit closing price.¹⁸

II. THE COMMISSION SHOULD LIMIT IMPAIRED LICENSES, SIMPLIFY THE FORWARD AUCTION AND REDUCE UNCERTAINTY FOR BIDDERS.

A. Licenses With Impaired Service Coverage Should Be Limited to Border Areas.

Commenters rightly raise multiple concerns about the Public Notice’s proposal to allow as much as 20 percent of the nationwide population to be located in markets which would be “impaired.” In those markets, wireless licensees would be restricted from serving a significant

¹⁵ *Id.*

¹⁶ *See* AT&T Comments at 37.

¹⁷ Verizon Comments at 16-17.

¹⁸ T-Mobile Petition for Reconsideration, Docket No. 12-268 (Sep. 15, 2014); CCA Petition for Reconsideration, Docket No. 12-268 (Sep. 15, 2014). Separately, in the *Mobile Spectrum Holdings* proceeding where the set-aside was established, T-Mobile asked the Commission to eliminate the price trigger. *See* T-Mobile Mobile Spectrum Holdings PFR at 13-17.

part of the licensed geographic area and customers. They note that this approach would likely suppress bidding by auctioning licenses in hundreds of markets across the country that carriers could not serve due to TV station impairments. The best way to promote a successful auction is to avoid the vast majority of those impairments. The Commission can do that by establishing a near-nationwide band plan that subjects mobile licenses to broadcaster interference only at the borders with Mexico and Canada, where the Commission cannot control the interference created by foreign broadcasters.¹⁹

The Public Notice's proposal to scatter those impaired pops among disparate markets across the country is problematic as well. This would reduce the economic value of the spectrum, both by directly reducing the value of the licenses impaired by lower-clearing markets and by creating even more uncertainty among bidders about the risk of being assigned the less valuable licenses.²⁰ The Public Notice's related proposals to use a complicated methodology for estimating the level of each license's impairment plus a "discounting" methodology would only exacerbate bidder uncertainty and auction complexity. As Sprint notes, a particular level of impaired pops does not translate linearly (as the Public Notice proposes) into the same percentage reduction in a market's value.²¹ However, attempting to solve for this non-linear correlation would make calculating discounts even more complex.

T-Mobile recognizes the problems with the Public Notice's proposal and attempts (unsuccessfully) to fix them by proposing additional auction features and impairment methodologies. It would shift to a 10 percent impairment rule but only in certain scenarios. Its proposal would modify the complex weighting scheme and add new constraints on market

¹⁹ See Verizon Comments at 3-6.

²⁰ Verizon Comments at 3-6; AT&T Comments at 11-24; Sprint Comments at 6, 10-17; National Association of Broadcasters Comments at 11-15.

²¹ See, e.g., Sprint Comments at 17 n.29.

variation, including a new rule on the number of non-impaired licenses that must be available in specific markets.²² Those proposals would, however, add extra layers of complexity, and are based on arbitrary assumptions about what might or might not be attractive to bidders. And they do not fix the underlying problem: that the 20 percent impairment rule would deter bidding for many licenses because they will be more difficult to build out and serve.

Sprint agrees that the Commission should not attempt to auction differently-impaired licenses as though they were generic, but Sprint’s complex proposal to redesign the auction to permit block-specific bidding is not the right solution. Sprint correctly observes that, because the mechanisms the Public Notice proposes for addressing license heterogeneity are inherently flawed, they would require forward auction bidders to “bid with considerable conjecture and uncertainty.”²³ However, Sprint incorrectly concludes that the right fix is to redesign the auction to permit block-specific bidding.²⁴ Such a major shift in auction design at this stage would cause as many problems as it would solve. Sprint only vaguely outlines how this new auction might work, explaining that it would involve somehow ensuring that “the number of clock prices is equal to the number of heterogeneous items.”²⁵ But this would risk creating literally hundreds of market-specific auctions, adding immense complexity and risk. The far better way to address the problem of license heterogeneity is to avoid creating any unnecessary impairment in the first place. Specifically, the Commission should minimize impairments by creating a near-nationwide band plan with low-clearing markets only in the border areas.

²² T-Mobile Comments at 10-26.

²³ Sprint Comments at 36.

²⁴ *Id.* at 35-38.

²⁵ *Id.* at 37-38, quoting *A Market-Based Approach to Establishing Licensing Rules: Licensed Versus Unlicensed Use of Spectrum*, Office of Strategic Planning and Policy Analysis Working Paper No. 43, at 10 (rel. Feb. 2008).

B. The Commission Should Place Any TV Stations That Must Remain in the New 600 MHz Band in the Uplink Spectrum.

There is also consensus that the Commission should avoid impairing any repurposed spectrum by placing TV stations anywhere – in the uplink, downlink, duplex gap, or guard bands – in the mobile spectrum band. But, as Verizon and others explained in detail, if the Commission cannot avoid impairing some mobile spectrum, it should relocate the stations to the *uplink* portion of the band.²⁶

AT&T agrees that impairing downlink is unacceptable, but suggests that the Commission should relocate the stations to the duplex gap instead of the uplink portion.²⁷ However, placing broadcast operations in the duplex gap would cause the same problems as placing them in the downlink band.²⁸ The right (and only) place to relocate TV stations is into the uplink portion of the 600 MHz band. The reason uplink re-insertions of TV stations are preferred is the ability of wireless operators to modify the impacted areas' base station receivers' uplink filters. High rejection notch filters can be used to attenuate uplink reception interference. Such a solution is not available to the mobile handsets because of both the size of the handset and the fact that they are mobile. No area-specific filtering solution can be applied to the handsets. Therefore, re-insertions should not be made in the downlink, duplex gap, or guard bands, because the handsets cannot be modified to achieve such protections.

C. The Commission Should Explain the Mechanics of Auction Participation to Potential Bidders Well in Advance of the Auction.

Given the auction's inherent complexity and the consensus that certainty is crucial, the Commission should make sure forward auction bidders have all of the technical and

²⁶ Verizon Comments at 17-19; T-Mobile Comments 10-16; Cellular South Comments at 3-4.

²⁷ AT&T Comments at 14-15

²⁸ Verizon Comments at 18-19.

administrative information needed to participate well in advance. The Commission has engaged in substantial outreach to the broadcaster community. In the same way, the Commission should take steps to educate potential forward auction bidders about how to participate from a technical and administrative point of view. Given that this incentive auction is the first of its kind, even experienced spectrum auction participants will need substantial information and education in order to enter the auction with confidence.

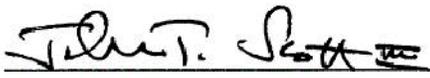
For example, well in advance of the application deadline the Commission should hold multiple mock auctions and webinars to enable qualified bidders to become familiar with the FCC's Incentive Auction system and to practice submitting bids. It should also supply potential bidders with file formats and other technical information needed to get their systems ready for the auction, and should do so much earlier than it has done with past auctions. Right now many aspects of both the forward auction and extended round bidding are unclear. All stakeholders will benefit from substantive and timely efforts by the Commission to ensure forward auction bidders the certainty they require in order to participate.

CONCLUSION

For the reasons set forth herein and in Verizon's initial comments, the Commission should adopt simple, transparent procedures for the incentive auction that will maximize participation and avoid discrimination among applicants.

Respectfully submitted,

VERIZON

By: 

John T. Scott, III

Christopher D. Oatway

1300 I Street, N.W.
Suite 400-West
Washington, D.C. 20005
(202) 515-2412

Its Attorneys

Kathleen M. Grillo
Of Counsel

March 13, 2015