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Via Electronic Filing

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W., Room TW-A325
Washington, D.C. 20554

Re: ***Ex Parte Presentation:***
Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions, GN Docket No. 12-268*; Competitive Bidding Procedures for Broadcast Incentive Auction 1000, Including Auctions 1001 and 1002*, AU Docket No. 14-252

Dear Ms. Dortch:

Sprint remains deeply concerned with certain aspects of the Commission's proposed implementation of the spectrum reserve. In pleadings in the above-captioned proceeding, Sprint has documented many ways in which the utility of the spectrum reserve would be undermined, absent additional refinements and procedural safeguards. Numerous parties have urged the Commission to increase the quality and quantity of the spectrum reserve.[1] Sprint supports these efforts. The 600 MHz Auction will not materially benefit consumers with improved downstream wireless broadband competition unless the reserve enables multiple competitive carriers to deploy low-band spectrum rapidly.[2] Particularly problematic, however, is the Commission's proposed mechanism for implementing the reserve. The proposed implementation procedures invite the very foreclosure bidding strategies the reserve was intended to prevent. The discussion below explains the problems with the current implementation proposal and describes an alternative that would allow the Commission to achieve its pro-competitive goals more effectively and advance the overall success of the forward auction.

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[1] Sprint is a member of the SaveWirelessChoice coalition which, among other things, advocates for a larger reserve, composed of substantially unimpaired spectrum, and implemented at the start of the forward auction. The proposal for reserve implementation contained herein should be adopted regardless of whether the reserve is increased or remains the size the Commission originally proposed.

[2] Which is to say, contiguous 10+10 MHz licenses with minimal impairment to more effectively compete with the multiple 10+10 MHz low-band channels the two dominant incumbents already enjoy.

Executive Summary

The Commission recognized the competitive importance of the 600 MHz spectrum in the *Mobile Spectrum Holdings Report and Order* and the parallel *Incentive Auction Report and Order.* In the *Incentive Auction Report and Order*, it established a reserve to lessen the likelihood that the two largest providers, with their vast resources, could foreclose their much smaller rivals from obtaining 600 MHz spectrum in the auction to better compete in the downstream mobile broadband market. The Commission set the right goal, but its implementation plan could create the very foreclosure risk it intended to prevent. To address this foreclosure risk, Sprint proposes that the Commission (1) establish reserve blocks at the beginning of the forward auction, rather than toward the end, and (2) allow eligible bidders to bid on those blocks from the outset.[3] The Commission could adopt these two changes quickly, without delaying the auction or extensively revising the proposed auction processes. With these modifications, the Commission can help ensure that consumers ultimately benefit from the 600 MHz auction by giving competitive carriers a fair shot at getting the low-band spectrum they need to compete more effectively with the two largest providers.

Background

Last year, the Commission, acting in accordance with its statutory mandate under 47 U.S.C. 309(j), adopted policies intended to "ensure that the spectrum [it is] auctioning will be used to promote robust competition and to limit the potential for future excessive concentration of low-band spectrum holdings."[4] A voluminous record on the competitive advantages conferred by low-band spectrum, and extensive evidence of the continuing incentives of dominant operators to foreclose access to this critical input, prompted the Department of Justice and Commission to conclude that "there is a risk of foreclosure in downstream wireless markets."[5] To address this foreclosure risk, the Commission created the spectrum reserve, which, on a contingent basis, makes a subset of licenses in each Partial Economic Area (PEA) available only to bidders who lack significant low-band holdings.

The Commission selected the spectrum reserve from a wide array of proposed competitive safeguards, including spectrum caps, auction-specific limits, and the extension of the spectrum screen to the auction. A spectrum reserve, the Commission concluded, effectively served the key statutory directive to promote competition, as well as the Commission's goals of preventing continued concentration of critical low-band spectrum and deterring foreclosure, while providing dominant carriers more certainty and flexibility.[6]

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[3] Sprint also proposes certain measures that would address potential concerns that establishing a reserve from the outset might prevent the auction from meeting the revenue thresholds needed to meet the Final Stage Rule.

[4] *Policies Regarding Mobile Spectrum Holdings, Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions*, Report and Order, 29 FCC Rcd 6133, ¶ 45 (2014) ("Mobile Spectrum Holdings Order").

[5] *Id*. ¶ 62.

[6] *See* 47 U.S.C. § 309(j); Mobile Spectrum Holdings Order ¶¶ 45, 62, 151.

The Commission was also driven by concerns about generating sufficient revenue to fund the First Responder Public Safety Network (FirstNet) and the costs of the reverse auction. To ensure the auction proceeds covered any amount needed for the Public Safety Trust Fund,[7] the Commission made the implementation of the spectrum reserve contingent upon satisfaction of a "cost prong." The Commission also set a "price prong" to ensure that reserve-eligible bidders contribute toward a significant portion of overall auction proceeds.

These two prongs comprise the Commission's Final Stage Rule (FSR). To ensure that the forward auction generates sufficient revenue to cover the costs of the reverse auction, the Commission's administrative costs, and the costs of broadcaster repacking, the Commission required that the FSR be met before the close of the auction. Revenues from the sale of reserve and non-reserve blocks will contribute to the funds needed to satisfy the FSR. The question facing the Commission is how to ensure that it reserves sufficient spectrum for competitive providers while also guarding against the risk that the forward auction will generate insufficient revenues to meet the FSR.[8] These are both important, but *distinct*, objectives that the Commission's proposed implementation procedures unnecessarily conjoin. The reasonable determination that reserve-eligible bidders should contribute towards auction revenues via the "price prong" need not, and should not, be intertwined with a broader obligation of *all* bidders to meet the costs necessary to close the auction.

As the first step in setting the size of the reserve, and prior to the forward auction, the Commission will determine the potential number of reserve blocks based on the initial stage clearing target. Under the proposed auction rules, however, implementation of the reserve would be delayed until the FSR's significant revenue targets are met, which may be late in the auction. Prior to the round in which the FSR is reached, a single clock price would apply to all blocks within a category in each market, and all bidders would be able to bid on them without reserve differentiation. This is where the Commission's proposal can go off track, as detailed below.

Creating reserve blocks after the Final Stage Rule is met increases foreclosure risk

If clearing costs are relatively high, prices across all PEAs would have to rise significantly to meet the FSR. A high clearing target (requiring more payments to reverse auction participants) or broadcaster reluctance to accept lower descending clock prices will result in an FSR "cost component" that is a substantial portion of license values. This means that bidding on the reserve spectrum blocks likely would be delayed until the late in the auction, even if reserve-eligible bidders bid aggressively after satisfying the price prong and contributing fairly toward auction costs. If prices increase uniformly across all PEAs throughout the early auction rounds,

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[7] Mobile Spectrum Holdings Order ¶ 151, n.468.

[8] Sprint understands the need for the FSR to be met, as it pertains to all bidders, before the forward auction can close, but is concerned that the current proposal creates a risk that too much of the burden will be placed on reserve-eligible bidders.

the FSR – *and the reserve* – could be triggered before prices closed in on their final values.[9] As Sprint noted in prior filings, however, bidders typically concentrate on larger markets early in the auction, and prices therefore escalate most rapidly in the large markets during early rounds.[10] *This means that the reserve probably will not be implemented until after bidding has closed in a significant percentage of the larger PEAs.*

Moreover, non-reserve-eligible bidders are likely to bid strategically for the express purpose of accelerating price increases in the larger PEAs and thereby keeping the spectrum from their competitors.[11] This will force reserve-eligible bidders to match the supra-competitive price offers of non-reserve-eligible bidders in those markets just to remain eligible to win reserve-eligible blocks once the reserve is eventually triggered.[12] This can lead to supra-competitive prices in key markets, potentially foreclosing reserve-eligible bidders in those PEAs before reserve bidding even begins. In other words, high clearing costs would both delay implementation of the reserve until late in auction and re-inject foreclosure risk. Non-reserve-eligible bidders would have significant incentive and ability to raise prices toward foreclosure values in key strategic markets – to drive out reserve-eligible bidders before the reserve triggers and to manage their own eligibility (as explained below). Thus, withholding reserve implementation until the FSR is satisfied exposes reserve-eligible bidders to the very risks of anticompetitive bidding that motivated the Commission to create a spectrum reserve in the first place.

The FCC's criteria for decreasing the number of reserve blocks unfairly limits bidding flexibility

In addition to creating foreclosure risk, the Commission's reserve implementation proposal will decrease the bidding flexibility and increase the uncertainty of reserve-eligible bidders. Specifically, the Commission proposes to shrink the reserve to the number of blocks demanded by reserve-eligible bidders in each PEA when "the auction reaches the trigger, *i.e.*, when the [FSR] is satisfied."[13] While this proposal proceeds from a reasonable policy determination –

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[9] Even in cases of uniform price escalation, however, reserve-eligible bidders still face some foreclosure risk under the proposed implementation process for the reserve.

[10] Comments of Sprint Corporation, GN Docket No. 12-268, at 46 (Feb. 20, 2015).

[11] This does not represent mere conjecture: the Commission adopted the reserve in large part because it determined that current competitive market conditions "increase the incentive and ability for a provider with low-band spectrum to bid for the spectrum in an attempt to stifle competition that may arise if multiple licensees were to hold low frequency spectrum. As a result, such a provider might be the highest bidder in a spectrum auction, not because it will put the spectrum to its highest use, but because it is motivated to engage in a foreclosure strategy." Mobile Spectrum Holdings Order ¶ 62.

[12] In other words, a high "cost component" provides significant head-room for non-reserve-eligible bidders to strategically raise prices in a subset of crucial markets to levels reflecting value premiums derived from the expected gain of deterring competitive access to those licenses, *i.e.*, the benefits of a more concentrated downstream market. Even bidders only trying to maintain maximum flexibility by concentrating bids on the largest bidding unit PEAs will unintentionally cause the same effect of escalating prices in these key markets.

[13] *Comment Sought on Competitive Bidding Procedures for Broadcast Incentive Auction 1000, Including Auctions 1001 and 1002*, Public Notice, 29 FCC Rcd 15750, ¶ 151 (2014) ("Comment Public Notice").

opening reserve blocks in specific PEAs to non-reserve-eligible bidders to the extent that reserve-eligible bidders exhibit insufficient demand for the reserve blocks in that PEA – it creates counterproductive uncertainty for reserve eligible bidders and thus jeopardizes their participation. As Sprint explained in previous pleadings, reserve-eligible demand in a single, unpredictable auction round is not an accurate reflection of true reserve-eligible demand in any given PEA. The shifting of demand across markets and licenses in response to price changes represents a hallmark of auction theory. Activity in any given round – particularly until the waning stages of an auction – provides only a snapshot of bidder demand, with bidders typically focusing on the largest markets to preserve bidding eligibility while shifting their target markets as prices change. Thus, rather than accurately assessing reserve-eligible bidder demand, and maintaining the full complement of reserve blocks to meet that demand, the Commission's proposal would unintentionally subvert the pro-competitive distribution of licenses among a broader range of competitors that the reserve was adopted to accomplish.

Stated differently, the Commission's reserve implementation proposal would impose unnecessary constraints on reserve-eligible bidders' flexibility and bidding strategies. To avoid losing access to reserve blocks, reserve-eligible bidders would have to spread their bids across markets throughout the auction. Doing so, however, would penalize reserve-eligible bidders, curtailing their ability to respond to bids aggressively and actively and preserve optionality to bid on different combinations of licenses in future rounds. Ever-fearful that the spectrum reserve could shrink in any given round because the trigger has not been met, reserve-eligible bidders will have to park their eligibility in all their desired mid- and small markets and thus have limited bidding flexibility from the outset of the auction.[14]

Non-reserve-eligible bidders would not be similarly constrained. In fact, non-reserve-eligible bidders may be able to influence the number of blocks reserved in key PEAs by skewing demand and, in turn, relative prices, prior to triggering the FSR. In the attached Appendix, we provide an example of how waiting to lock-in the reserved blocks until the round in which the FSR is triggered can arbitrarily reduce the number of reserved blocks at the end of the auction.[15] The Commission has not identified a valid public policy reason for constraining reserve-eligible bidders in this way, and Sprint respectfully submits that the Commission did not intend this result.

Alternative proposal for implementing the reserve

The prospect of foreclosure and the threat to long-term competition posed by increased concentration of low-band spectrum by the two largest wireless carriers represent genuine threats to the public interest, as unambiguously established in the Wireless Competition Reports and the record of the *Mobile Spectrum Holdings* proceeding. As Sprint has noted, however, certain

[14] It is unclear why, in the context of an auction meant to rectify competitive imbalance and minimize threats (strategic or structural) to competitive access to low-band spectrum, the Commission would favor an auction structure which so handicaps reserve-eligible bidders. This is particularly the case when, as described below, the Commission can effectively eliminate the burden on non-reserve-eligible bidders.

[15] *See* Appendix at § I.

aspects of the Commission's spectrum reserve proposal could impede robust participation by reserve-eligible bidders and subvert the Commission's pro-competitive goals.

In the discussion below, Sprint proposes an alternative reserve mechanism that better achieves the Commission's goal of protecting competition while ensuring that unsold blocks are made available to all bidders.

Establish reserve blocks at the beginning of the forward auction

For the reasons explained above, the Commission should establish reserve blocks before the first round of bidding and create separate clocks for reserve and non-reserve spectrum.[16] This approach protects against foreclosure and eliminates the risk that normal shifts in bidding activity will arbitrarily result in a reduction of reserve blocks in certain markets. This refinement can be implemented without altering the revenue mechanisms the Commission has identified as important for successful conduct of the auction.

The reserve could be reduced, as needed, in the unlikely event that there is insufficient demand for the reserved spectrum. To promote competition and ensure that all bidders pay competitive market prices for spectrum, the Commission should make the forward auction revenue component associated with this objective (the price prong) a condition subsequent for access to the reserve. Under this approach, the Commission could reclassify certain reserve blocks as open to non-reserve-eligible bidders if, in any round, there is insufficient aggregate reserve demand to meet the aggregate supply of reserve blocks ("Reserve Demand Shortfall").[17] And reserve blocks could not be won (and might be subject to subsequent reclassification), even by provisionally-winning reserve bidders, until the average price for reserve licenses meets the Commission's $1.25 average price benchmark for the 40 largest PEAs.[18]

With this proposal, licenses for reserve-eligible bidders are less likely to be left unsold because reserve block prices would not be subject to potential foreclosure bidding. With separate clocks at the outset, the prices for reserve blocks would more closely correspond to competitive market values, stimulating active bidding among reserve-eligible bidders. Moreover, using reserve-bidder eligibility to measure demand protects reserve-eligible bidders from losing access to reserve blocks for which sufficient reserve-eligible demand exists, but which are currently unbid due to normal bidding activity variation. Finally, this approach increases bidder certainty and

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[16] Under this proposal, the reserve size would be determined just as the Commission has proposed: based on the band plan associated with the initial spectrum clearing target, *i.e.*, currently a maximum of three blocks for band plans of 84 MHz and above, with less in initial spectrum clearing targets below 84 MHz.

[17] Aggregate reserve demand would be measured as the total eligibility points of reserve-eligible bidders, and aggregate supply measured as the total bidding units of all reserve blocks as of that round. The subset of unbid licenses selected for reclassification should have the minimum number of bidding units sufficient to eliminate the shortfall. *See* Appendix at § II for a more detailed discussion of how the FCC could select the PEAs to open for bidding by non-reserve eligible bidders.

[18] To be clear, Sprint is not proposing any change in the more general application of the FSR as it pertains to closing a forward auction stage. For the auction to close, both prongs must be met by overall forward auction revenues.

auction transparency and predictability. If, in any round, all reserve blocks have received bids, a Reserve Demand Shortfall cannot occur later, because the Commission's proposed rules prevent the acceptance of switches or reductions in demand that would result in demand falling short of supply in a category.[19]

Sprint respectfully submits that the efficiency of the forward auction bidding process can be enhanced by bidders being better able to anticipate the Commission reclassifying reserve blocks as non-reserved. As the Commission will post information after each round on the number of reserve-eligible bids in each PEA, bidders can observe the number of reserve blocks in each PEA that are unbid and calculate whether bidding activity (in terms of bidding units) from reserve-eligible bidders is sufficient to cover the reserved blocks. Because bidders need not bid 100 percent of their eligibility, however, rival bidders will be unable to calculate precisely whether bidding activity is sufficient to cover the reserved blocks. Therefore, to facilitate planning by both reserve-eligible and non-reserve-eligible bidders, the Commission can post, after each round, an index of the reserve-eligible bidders' aggregate eligibility relative to the supply of reserved blocks.[20] Any concerns that non-reserve-eligible bidders may not be able to bid on reserve blocks reclassified as open in later rounds can be addressed by supplementing those bidders' eligibility.[21]

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[19] Comment Public Notice ¶¶ 176-79, Appendix G; *see also Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions*, Report and Order, 29 FCC Rcd 6567, ¶ 509 (2014). *See* Appendix at § III for an example illustrating the process for opening unsold reserve blocks.

[20] In order to limit ability of bidders to convey bidding information through small, and not very meaningful eligibility reductions, the Commission can report this demand/supply ratio to only one significant digit after the decimal place. Thus, for example, if the bidding units of available Reserved Blocks are 1,000 and reserve-eligible bidder eligibility is between 1,050 and 1,149, the FCC can report a 1.1 ratio of reserve-eligible bidder eligibility relative to the reserved blocks. In this manner, all bidders will be able to plan for the possibility of reclassification of the reserved blocks.

[21] *See* Appendix at § IV.

Conclusion

The Commission set the right goals in creating the spectrum reserve. To ensure the spectrum reserve mechanism meets those goals, the Commission should establish the reserve at the outset of the auction and allow eligible bidders to bid on those blocks from the beginning of the forward auction. If there is insufficient demand for some of the reserve blocks, the Commission could open certain blocks to non-reserve-eligible bidders, and provide those bidders with additional eligibility points, pursuant to a simple formula. This approach would allow the Commission to balance the need to ensure that the auction generates sufficient revenue to meet the FSR and is structured to reduce the risk that the two largest wireless providers can foreclose smaller rivals from obtaining the low-band spectrum they need to compete more effectively and better serve consumers.

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APPENDIX

The Commission established a reserve mechanism to promote competition in the wireless marketplace, prevent excessive concentration of licenses, and protect the integrity of the Commission's competitive bidding systems. As Sprint has explained, however, the implementation of the reserve must be modified to achieve these goals. Bidding is likely to be focused predominantly on very large PEAs in early rounds of the auction. Thus, unless the FCC changes its method for establishing a spectrum reserve, it is highly likely that prices in key markets will be driven well beyond what a reserve-eligible bidder could consider paying, driving reserve-eligible bidders out of the auction before the FSR trigger is reached. Implementing the reserve upfront would prevent this type of foreclosure, while enabling non-reserve-eligible bidders to bid on any reserve blocks reclassified due to insufficient eligible bidder activity.

In the sections below, Sprint provides more details of its proposal, and:

- Demonstrates how the largest carriers could exploit the FCC's proposed spectrum reserve implementation and foreclose competitive carriers from benefitting from the reserve;
- Explains its proposed methodology for determining which PEAs to remove from the reserve if there is insufficient demand for all of the reserved spectrum;
- Illustrates the process for opening unsold reserve blocks to non-reserve-eligible bidders; and
- Proposes a system for ensuring that non-reserve-eligible bidders have sufficient bidding units to bid on reserved blocks that are opened to all bidders in later auction rounds.

I. SIMULATION OF LIKELY BIDDING SCENARIOS UNDER THE COMMISSION'S PROPOSAL

Suppose there are three "reserve-eligible" bidders competing for licenses in four regions (this example uses Auction 97 BEA numbers) and that there are ten blocks available in each region. Suppose further that the spectrum reserve is three blocks in each region. Also assume that the "Non-Reserve-Eligible" bidders bid uniformly on ten blocks in each round. This example shows the type of switching that occurs with normal arbitrage incentives, especially when bid increments are high.

In other words, the assumed bidding behavior reflects the type of switching that often occurs in auctions. In particular, reserve-eligible bidders will switch off a license in one PEA when its price increases, onto a license in a different PEA whose price was not increasing in the previous round, then back again in the following round.[22] Admittedly, this is a condensed example in

[22] In an SMRA format, this could include switching between licenses in the same market or switching between licenses in different markets. In the context of the Commission's clock auction, this could take the form of switching between licenses in different categories (assuming the price differential is seen by the bidder as still reflecting the utility differential) or switching between licenses in different markets.

which price increases and switches occur in consecutive rounds. Usually, this type of seesaw pattern unfolds over many rounds.

As shown in Table 1, if the FSR were triggered in Round 11, there would be three reserved blocks set aside in each of Washington-Baltimore and Philadelphia and none set aside in Dallas-Fort Worth and Boston-Worcester. Conversely, if the FSR were triggered in Round 12, there would be no reserved blocks set aside in each of Washington-Baltimore and Philadelphia and three each in Dallas-Fort Worth and Boston-Worcester. This example highlights how using a single round of bid data can result in highly arbitrary determinations of the number of reserve blocks set aside in each region and may force bidders to avoid changes in bids, even when shifts in prices would make it optimal to do so.

Table 1: Typical Bid Switching Scenario

		Round 10			Round 11			Round 12			Round 13		
Market	Description	Price	RE Demand	Non RE Demand	Price	RE Demand	Non RE Demand	Price	RE Demand	Non RE Demand	Price	RE Demand	Non RE Demand
BEA013	Wash.-Balt. DC-MD-VA-WV-PA	$ 62,984,000	0	10	$ 62,984,000	9	10	$ 69,282,400	0	10	$ 69,282,400	9	10
BEA127	Dallas-Fort Worth TX-AR-OK	$ 60,184,000	9	10	$ 66,202,400	0	10	$ 66,202,400	9	10	$ 72,822,640	0	10
BEA003	Boston-Worcester MA-NH-RI-VT	$ 54,464,000	9	10	$ 59,910,400	0	10	$ 59,910,400	9	10	$ 65,901,440	0	10
BEA012	Phil.-Atl. City PA-NJ-DE-MD	$ 51,200,000	0	10	$ 51,200,000	9	10	$ 56,320,000	0	10	$ 56,320,000	9	10

Unlike the highly arbitrary determination of the reserve size resulting from the Commission's proposal and simulated above, the alternative framework begins bidding with the reserve in place. The size of the reserve is only reduced based on an objective reflection of overall reserve-eligible demand, which indicates whether reserve demand is in fact sufficient to meet the aggregate supply of reserve blocks.

II. PROPOSED METHODOLOGY FOR SELECTING WHICH PEAS TO REMOVE FROM THE RESERVE

In the unlikely event that there is insufficient demand for the reserved blocks, the Commission can open certain blocks to all bidders. The Commission could use a standard commercial knapsack algorithm to select the PEAs to open for bidding by non-reserve-eligible bidders.[23] It is likely, however, that there will be more than one combination of unbid licenses that minimize the number of bidding units subject to being greater than or equal the Reserve Demand Shortfall.[24] The following criteria could be included to arrive at a unique set of licenses to open:

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[23] *See, e.g.*, Brien Givens, *Bounded Knapsack Algorithm*, Code Project (Jan. 8, 2014), http://www.codeproject.com/Articles/706838/Bounded-Knapsack-Algorithm; *Knapsack Problem Dynamic Programming Algorithm*, Programming Logic (Dec. 3, 2011), http://www.programminglogic.com/knapsack-problem-dynamic-programming-algorithm/.

[24] *See* Sprint Letter at 6-7.

i) The Commission should not open a second block in one PEA before it opens up at least one block in all other PEAs in which there is not sufficient demand to cover the available blocks; and ii) the Commission could select the combination with the greatest number of licenses, which corresponds roughly to prioritizing opening the smallest blocks first.

III. ILLUSTRATION OF THE PROCESS FOR OPENING POTENTIAL UNSOLD RESERVE BLOCKS

Suppose that the total bidding units for all reserve blocks were one hundred and, at the end of Round 15, total eligibility of reserve-eligible bidders had fallen to eighty, creating a Reserve Demand Shortfall of twenty. This shortfall would imply that reserve-eligible bidders, in aggregate, no longer had sufficient eligibility to bid for all of the reserve licenses. Assume further that licenses comprising thirty bidding units were unbid as of Round 15.

To address this shortfall, the Commission could select licenses comprising twenty bidding units (or as close as possible to twenty) from the pool of reserve licenses that had not received bids and reclassify them as open to all bidders. Reclassifying such blocks would reduce the size of the reserve sufficiently to eliminate the Reserve Demand Shortfall.

Following the reclassification in Round 15, there would remain unbid licenses totaling ten bidding units (that is, thirty points unbid reserve blocks minus twenty blocks reclassified). If, in subsequent rounds, some licenses remain unbid and eligibility falls such that there is once again a Reserve Demand Shortfall, additional licenses would be opened, using the same process discussed above.

IV. PROPOSED SYSTEM FOR PROVIDING NON-RESERVE-ELIGIBLE BIDDERS WITH ADDITIONAL ELIGIBILITY TO BID FOR RECLASSIFIED BLOCKS

If the Commission wants to ensure that non-reserve-eligible bidders retained sufficient bidding eligibility for later-reclassified blocks, it could supplement the eligibility of those bidders at such times as it reclassifies them. The Commission should limit any such additional eligibility points, however, so that no bidder's total eligibility ever exceeds its initial eligibility, as determined from the up-front deposit. Thus, a non-reserve-eligible bidder that is potentially interested in bidding on any reclassified reserve blocks should size its up-front payment to cover this contingency. The non-reserve-eligible bidder would not be required to place additional bids just to retain these "contingent" bidding units prior to the opening of reserve blocks, as the necessary additional bidding units would be granted to the bidders at the time of the reclassification.

For example, assume that reserve blocks totaling twenty points were reclassified as open at the end of Round 15. Suppose that Bidder A was a non-reserve-eligible bidder with an initial eligibility of two hundred points, but had reduced eligibility to one hundred and fifty points as of the end of Round 15. At the time of reclassification, Bidder A would be granted an additional twenty points of eligibility for a total eligibility of one hundred seventy points for bidding in round 16.

Suppose further that Bidder B was a non-reserve-eligible bidder that had an initial eligibility of two hundred ten points, but had reduced eligibility to one hundred ninety-five points as of the end of Round 15. Bidder B would then be granted only an additional fifteen points of eligibility for a total eligibility of two hundred ten points for bidding in Round 16. Bidder B would not be granted the full twenty points, as it would result in eligibility exceeding the bidder's initial level determined by its up-front deposit.

Once provided, the non-reserve-eligible bidders' supplemental eligibility would be subject to reductions based on activity in accordance with the usual activity rules applicable to bidders.