



Competitive Carriers Association
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May 20, 2015

VIA ECFS

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: EX PARTE NOTICE

Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions,
GN Docket No. 12-268
Policies Regarding Mobile Spectrum Holdings, WT Docket No. 12-269
Comment Sought on Competitive Bidding Procedures for Broadcast Incentive Auction 1000,
Including Auction 1001 and 10002, AU Docket No. 14-252

Dear Ms. Dortch:

Competitive Carriers Association (CCA) submits the attached economic study, *Bidding and Prices in the AWS-3 Auction*, prepared by auction theorist Peter Cramton, a professor of economics at the University of Maryland, and Pacharasut Sujarittanonta, a professor of economics at Chulalongkorn University in Thailand.¹ In their study, Professors Cramton and Sujarittanonta examine bidding strategies and license prices in the AWS-3 Auction and conclude that the AWS-3 auction results reinforce the need for the Federal Communications Commission to adopt pro-

¹ Dr. Peter Cramton is a Professor of Economics at the University of Maryland, and a leading scholar of auction theory and practice. He is a co-inventor of the spectrum auction design used to auction 4G spectrum in Canada, Australia, and many European countries, and has played a leading role in designing electricity and gas auctions in North America, South America, and Europe. Dr. Cramton's academic research focuses on the design of auctions for many items, including spectrum, and his work has appeared in leading economic journals. He is also the Chairman of Market Design Inc., an economics consultancy focusing on the design of auctions. Pacharasut Sujarittanonta is a Professor of Economics at Chulalongkorn University in Thailand. He has been involved in the design of the U.S. Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) wind tract auction, in addition to auctions for spectrum in Canada and the United Kingdom. Professor Sujarittanonta has also provided strategic advice and bid-tracking tools to participants in several spectrum auctions.

competitive policies in the 600 MHz incentive auction, to prevent the dominant incumbents from foreclosing smaller competitors.

AT&T and Verizon dominated the AWS-3 auction. In the study, Professors Cramton and Sujarittanonta analyze spending in the AWS-3 auction on a round-by-round basis and assess bidding activity among the leading auction participants. They document the fluctuations in bidding activity as the eligibility requirements were increased during the auction, and demonstrate how excess demand steadily increased prices over the duration of the auction – quickly in the initial rounds and more slowly during the later stages of the auction. They also analyze the bidding patterns of several major bidders, including AT&T; Verizon; SNR Wireless LicenseCo, LLC (SNR); and Northstar Wireless, LLC (Northstar), and conclude that these bidders were largely responsible for the outcome in the paired blocks. In the final analysis, however, AT&T and Verizon spent two out of every three dollars bid in the auction and acquired 20 megahertz of spectrum each in most markets.

In light of these results, Professors Cramton and Sujarittanonta explain that merely counting licenses won – as AT&T and Verizon often do in their public advocacy – is “completely meaningless.” A bidder can win a large number of licenses and have little price impact, or win relatively few and have a large price impact. Professors Cramton and Sujarittanonta then go on to document the fungibility of the paired blocks among bidding entities and perform a regression analysis on bidding activity to reveal substantial substitution across service areas.

Professors Cramton and Sujarittanonta next dispel a series of myths.

- *First*, competitive carriers did not lose to any one bidder in the AWS-3 auction. Rather, competitive carriers lost to the collective upward pricing pressure of numerous bidding parties, especially AT&T and Verizon. As AT&T has said in some of its more honest moments, no one bidder “set the prices at auction, the auction competition did.”²
- *Second*, AT&T and Verizon did not enter the auction with the same incentives as other bidders, but rather could selectively acquire mid- and higher band spectrum because they benefit from a pre-existing coverage layer comprised of their low-band cellular and 700 MHz holdings. These conditions encouraged AT&T and Verizon to outspend all other bidders in the AWS-3 auction.
- *Third*, designated entity discounts available to SNR and Northstar increased – rather than decreased – auction revenue. Absent the discount, bidders would have bid differently – most likely generating billions of dollars *less* in net revenue than the auction actually raised.

Because the AWS-3 auction demonstrates the ability of the dominant incumbents to bring many tens of billions of dollars in capital to a major spectrum auction, the authors focus on the important role competition policy must play in achieving consumer benefits for the upcoming 600 MHz incentive auction. AT&T and Verizon won more than two-thirds of the paired spectrum in the AWS-3 auction, and the same conditions that led to this level of concentration in the AWS-3

² Joan Marsh, *Auction 97 – More Lessons for Future Auctions*, AT&T PUB. POLY BLOG (Mar. 4, 2015, 1:36 PM), <http://www.attpublicpolicy.com/wireless/auction-97-more-lessonsfor-future-auctions>.

auction will reoccur in the 600 MHz auction, except that AT&T and Verizon, which control the majority of low-band resources, will be much more eager to foreclose the emergence of would-be rivals with similar spectrum resources. Professors Cramton and Sutarittanonta conclude that because AT&T and Verizon have an even greater incentive and ability to foreclose smaller carriers in the incentive auction than they did in the AWS-3 auction, the future of competition in the mobile broadband market may well depend on the adoption of a four-block spectrum reserve that can offer an opportunity for non-dominant carriers to use low-band spectrum to compete with the two dominant providers.

Pursuant to Section 1.1206(b)(2) of the Commission's rules, I am filing this letter electronically in the above-referenced dockets. Please contact me directly with any questions.

Sincerely,

/s/ Rebecca Thompson

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