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July 1, 2015

**EX PARTE VIA ECFS**

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

**Re: Expanding the Economic and Innovation Opportunities of Spectrum through Incentive Auctions, GN Docket No. 12-268, AU Docket No. 14-252**

Dear Ms. Dortch:

On June 29, 2015, the undersigned, representing AT&T, spoke on the telephone with Howard Symons, Vice Chair of the Incentive Auction Task Force, to discuss Staff recommendations on the 600 MHz auction.

I explained that the Commission Staff's recommendations create both the incentive and ability for reserve-eligible bidders to manipulate bidding in a manner that suppresses bid amounts in the reserve auction while bidding up prices in the unreserved auction. We understand that, under the Commission Staff's recommendation, when the final stage rule is met, if total demand by reserve eligible bidders exceeds supply of reserve spectrum, the excess demand will be allocated exclusively to the unreserved auction. Thus, by design, the clock price in the reserve auction will stop (because demand will equal supply), but the clock price in the unreserved auction will continue to rise as long as demand in that auction exceeds supply. Moreover, because the FCC's proposed trigger for splitting the auction into reserved and unreserved may occur when average prices are at a level of only \$1.25 MHz/pop, this would effectively result in selling the reserve spectrum at a level that is less than half as much as the price of AWS-3 spectrum sold earlier this year.

The recommendation therefore would allow reserve eligible bidders to express excess demand that would have the effect of bidding up prices in the unreserved auction while keeping prices in the reserve auction much lower. As Professors Haile and Kearns and Ms. Dworkin have demonstrated in their filing, reserve eligible bidders can undertake

this strategy at little or no risk.<sup>1</sup> Yet such a strategy could impose a significant price penalty on bidders that are not reserve eligible and thus must express their demand in the unreserved auction.

The potential for abuse is even greater if reserve eligible bidders are allowed to move demand between PEAs because, among other things, it creates opportunities to circumvent the activity rules and engage in additional bid manipulation. For example, a reserve eligible bidder could effectively “park” demand in the unreserved auction in a PEA (by placing excess demand there) and then, late in the auction, shift that demand to the reserved or unreserved auction in another PEA.

The record shows that a small modification to the auction rules would dramatically reduce the potential for bid manipulation without compromising the Commission’s stated objectives. Specifically, reserve eligible bids should not be placed in the unreserved auction where the same category of spectrum is available at the same or lower price in the reserve auction. That is, all reserve eligible demand for a Category of spectrum in a given PEA should be assigned to the lowest price spectrum available. Imposing this restriction would not limit the ability of reserve eligible bidders to bid for and win unreserved licenses. It simply prevents them from bidding up those prices when lower priced reserve spectrum is available. This approach also reduces the ability of reserve eligible bidders to circumvent the activity rules and engage in inter-PEA bid manipulation.

In accordance with the Commission’s rules, this letter is being filed electronically with the Secretary for inclusion in the public record.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joan Marsh', with a horizontal line extending to the right.

Joan Marsh

cc: Howard Symons

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<sup>1</sup> Philip A. Haile, Michael Kearns, Lili Dworkin, *Comments on the FCC’s Current Incentive Auction Design Proposals*, at 14-16 (filed Feb. 20, 2015) (“Haile-Kearns-Dworkin”), attached to Comments of AT&T, *Competitive Bidding Procedures for Broadcast Incentive Auction 1000, Including Auctions 1001 and 1002*, AU Docket No. 14-252 & GN Docket No. 12-268, (Feb. 20, 2015).