

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

Auction of Advanced Wireless Services	)	
Scheduled for June 29, 2006	)	AU Docket No. 06-30
Comment Sought on Reserve Prices or	)	
Minimum Opening Bids and other Procedures	)	

**REPLY COMMENTS OF VERIZON WIRELESS**

Verizon Wireless submits these reply comments in response to comments filed in the above-captioned proceeding.<sup>1</sup> Nothing in the record should dissuade the Bureau from proceeding with a simultaneous multiple round auction with package bidding (“SMR-PB”). Limiting the SMR-PB format to a small subset of the AWS-1 licenses (E and F blocks) and conducting that auction promptly after the close of the A-D block auction will achieve the benefits of package bidding while resolving commenters’ concerns. Furthermore, Verizon Wireless believes that with its proposed modifications, the Bureau should proceed with its plan to limit bidder information because these modified limits will yield the most efficient auction.

**I. THE BUREAU SHOULD PROCEED WITH AN SMR-PB AUCTION OF A SMALL SUBSET OF AWS-1 LICENSES.**

Commenters express concerns about the Bureau’s plan to allocate the AWS-1 licenses between two auctions, one using the standard simultaneous multiple round bid format (“SMR”)

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<sup>1</sup> Auction of Advanced Wireless Services Scheduled for June 29, 2006, Comment Sought on Reserve Prices or Minimum Opening Bids and other Procedures, *Public Notice*, DA 06-238, AU Docket No. 06-30, Report No. AUC-06-66-A (Auction No. 66) (rel. Jan. 31, 2006) (“Public Notice”). Unless otherwise noted, all comments referenced herein are to this Public Notice and were filed on February 14, 2006.

and the other using SMR-PB. The most common concerns are the general complexity of package bidding,<sup>2</sup> the impact of such an auction on small bidders,<sup>3</sup> the impact on the timing of the auction,<sup>4</sup> and importance of this auction to the industry.<sup>5</sup> None of these arguments, however, show why the Bureau should not go ahead with this plan.

An SMR-PB would be somewhat more complex to implement, but that is no excuse to avoid its use. When first designed and implemented, the now “tried and true” SMR auctions were also seen as novel and complex, but this did not mean that the Commission avoided implementing them. Rather, the Commission proceeded to hold SMR auctions, as it should do here.<sup>6</sup>

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<sup>2</sup> *See, e.g.*, Alltel Corporation Comments at 2; T-Mobile USA, Inc. Comments at 4, Centennial Communications Corporation Comments at 2; Cingular Wireless LLC Comments at 3; CTIA, the Wireless Association Comments at 1; Sprint Nextel Corporation Comments at 1-2, 5.

<sup>3</sup> *See, e.g.*, Cingular Comments at 4; Sprint Nextel Comments at 2-4 National Telecommunications Cooperative Association (“NTCA”) at 2, 3; Rural Telecommunications Group, Inc. (“RTG”) Comments at 7-9; United States Cellular Corporation (“USCC”) Comments at 2; 3G Comm L.L.C. Comments at 1 (filed Feb. 13, 2006), *see also* comments similar to 3G Comm from Advanced Communications Technology, Inc., Alpine Communications, LC, Cameron Communications, LLC, Cascade Communications Company, CC Communications, Chibardun Telephone Cooperative, Inc., Clear Lake Independent Telephone Company, Consolidated Telcom, Copper Valley Wireless, Dubois Telephone Exchange, Inc., East Buchanan Telephone Cooperative, Emery Telcom, Farmers and Business Mens' Telephone Company, Farmers Mutual Telephone Company, Fidelity Communications Co., Grand Mound Cooperative Telephone Association, Interstate Telecommunications Cooperative, Inc., Kennebec Telephone Company, Lost Nation-Elwood Telephone Company, Marne & Elk Horn Telephone Company, Miles Co-op Telephone Association, Nucla-Naturita Telephone Company, Premier Communications, RT Communications, Inc., South Central Utah Telephone Association, UBTA-UBET Communications, Van Buren Telephone Company, Inc., Venture Communications Corporation, Inc. and Winnebago Cooperative Telephone Association.

<sup>4</sup> *See, e.g.*, CTIA Comments at 3, T-Mobile Comments at 5; RTG Comments at 9

<sup>5</sup> *See, e.g.*, Alltel Comments at 1; CTIA Comments at 1; Columbia Capital and MC Venture Partners Joint Comments at 3, 5; Cingular Comments at 5; Leap Wireless International, Inc. Comments at 1.

<sup>6</sup> Parties opposing the use of package bidding fail to explain how their position squares with Congress directing in Section 309(j)(3) that “the Commission shall. . . provide for the design and

In 2000, the Bureau spent considerable resources in preparing the appropriate procedures and software for using package bidding in Auction No. 31.<sup>7</sup> In 2003, the Bureau conducted an SMR-PB auction of five regional narrowband PCS licenses.<sup>8</sup> Claims that the Bureau is rushing to judgment are thus incorrect.<sup>9</sup> To the contrary, auctioning the E and F block of the AWS-1 spectrum is a conservative, logical and appropriate next step for the Bureau to take in its implementation of SMR-PB auctions. It is a carefully considered approach in an auction where there is a significant amount of spectrum available (90 MHz), and a band plan that lends itself to be split among two auctions. Under the Verizon Wireless proposal, the Commission would still auction 60 MHz of spectrum in an SMR auction. Clearly, it is not necessary for the Commission to spend additional months, perhaps even years, to further “study” package bidding.<sup>10</sup>

With respect to the concerns of small businesses and rural telephone companies, Verizon Wireless agrees that the Bureau should not auction the A block licenses in an SMR-PB due to the sheer number of those licenses because it could “unduly complicate” the bidding. That,

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conduct (for purposes of testing) of competitive bidding using a contingent combinatorial bidding system. . . .” The Bureau’s plan fulfills this Congressional policy.

<sup>7</sup> Auction of Licenses in the 747–762 and 777–792 MHz Bands Scheduled for September 6, 2000; Procedures Implementing Package Bidding for Auction No. 31; *Public Notice*, DA 00-1486, 15 FCC Record 11526, 11526 (2000) (“Auction No. 31 Public Notice”). If not for Congressional intervention unrelated to the plan to implement package bidding, Auction No. 31 would have proceeded nearly four years ago. *See* Auction Reform Act of 2002, Pub. L. No. 107-195, 116 Stat. 715; 47 U.S.C. § 309(j)(15)(C)(iv).

<sup>8</sup> *See* Regional Narrowband PCS Spectrum Auction Closes, Winning Bidder Announced, *Public Notice*, 18 FCC Rcd 19689 (2003).

<sup>9</sup> *See, e.g.*, Cingular Comments at 3; Sprint/Nextel Comments at 1. Curiously, predecessor companies of both Cingular and Sprint/Nextel were supportive of the Bureau conducting a SMR-PB in Auction No. 31. *See gen.* Joint Comments of SBC Wireless, Inc. and BellSouth Cellular Corporation and Nextel Communications, Inc. in Auction No. 31 Public Notice (filed June 9, 2000). It is hard to believe that the Bureau is any less prepared to hold an SMR-PB auction now than it was 6 years ago.

<sup>10</sup> Sprint Nextel Comments at 7.

however, does not mean no SMR-PB auction should be conducted at all. In our initial comments, we recommended that the Bureau separate the E and F block, and auction only those two blocks in an SMR-PB auction.<sup>11</sup> The smaller spectrum blocks, Cellular Market Areas (“CMA”) and Economic Areas (“EA”) and one Regional Area Grouping (“REAG”) block would be auctioned as part of an SMR auction. This should allay any concerns that smaller carriers have about the complexity of participation in an SMR-PB auction. In fact, other commenters suggest that separating the E and F block would be appropriate.<sup>12</sup>

Verizon Wireless believes that if the Bureau separates the licenses and conducts both an SMR and an SMR-PB auction, it should hold the auctions consecutively.<sup>13</sup> Commenters are concerned about the difficulty of participating and managing eligibility in two simultaneous auctions.<sup>14</sup> Another reason to hold the auctions consecutively (and the E and F blocks after the A-D blocks) would be that it would give the Bureau more time to fine tune some of the procedures and allow the additional time some commenters seek to develop the analytical tools necessary to participate in an SMR-PB auction.<sup>15</sup> Holding the auctions consecutively would thus address the concerns of those commenters that believe that there is not enough time between now and June 29, 2006 to ensure that the appropriate procedures are in place.

Perhaps most perplexing are those comments that suggest that because of the importance of this spectrum, the Bureau should not use the SMR-PB auction format. It is precisely because of the importance of AWS spectrum in enabling the growth and development of next generation

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<sup>11</sup> VZW Comments at 3.

<sup>12</sup> See Centennial Comments at 3, 5.

<sup>13</sup> See also Cingular Comments at 5, n. 4; Paul Milgrom and Gregory Rosston Comments at 2.

<sup>14</sup> See, e.g., Cingular Comments at 4, MetroPCS Communications, Inc. Comments at 6.

<sup>15</sup> See, e.g., Alltel Comments at 2; Cingular Comments at 2-3; Sprint Nextel Comments at 5-6.

services that the Commission should ensure that it is giving opportunities both to small and regional carriers to acquire spectrum, and to new entrants or large national carriers to acquire a larger footprint. One commenter minimizes the exposure problems of being unable to secure contiguous spectrum in an AWS-1 SMR auction that does not include package bidding,<sup>16</sup> based on an outdated view of the industry. Much has changed since the early days of spectrum auctions – in 1995, at the time of the first auction, the industry was young, balkanized and only served 28 million subscribers. Since then, in order to serve nearly 200 million subscribers and provide the kind of reach and services most consumers expect, the industry has spent billions of dollars on thousands of transactions to assemble robust local, regional *and* national footprints. By auctioning a small portion of the spectrum in an SMR-PB format, the Bureau would be promoting the goals of 309(j)<sup>17</sup> as well as ensuring that funds to acquire larger geographic areas flow to the U.S. Treasury, not to private parties. While there is certainly evidence of interest in smaller license sizes, there is just as clearly a need for some carriers to acquire a national or near national footprint to offer the next generation of broadband mobile services.<sup>18</sup> Given the large amount of spectrum available for auction, the Bureau has an ideal opportunity to use SMR-PB to facilitate large and small carriers as well as new entrants. Clearly, it is in the public interest for the Bureau to auction some spectrum in an SMR-PB auction.

The Bureau long ago concluded package bidding would be an improvement over its usual auction design in auctions where, as here, there are strong complementarities among licenses for

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<sup>16</sup> Leap Comments at 3.

<sup>17</sup> See 47 U.S.C. § 309(j)(3), 309(j)(3)(A) and (D) .

<sup>18</sup> VZW notes that some of the larger carriers have already accomplished this through merger or license modification.

some bidders and the pattern of those complementarities varies for different bidders.<sup>19</sup> If anything, the broad disagreement on how and when to use the SMR-PB format shows that the pattern of such complementarities varies widely among potential bidders.<sup>20</sup> It is long past time for the Bureau to act on its conclusion that under circumstances such as those present for the AWS-1 spectrum, package bidding should yield the more efficient outcome, with licenses being sold to those bidders who value them the most.<sup>21</sup>

## **II. LIMITS ON BIDDER INFORMATION SHOULD BE MODIFIED AS PROPOSED IN VERIZON WIRELESS' COMMENTS.**

The Bureau should adopt its proposal to limit bidder information, but with the modifications Verizon Wireless proposed in its comments.<sup>22</sup> Our main concern is that the Bureau not hinder applicants' ability to comply with the Commission's anti-collusion rules. We note that other commenters have raised similar concerns,<sup>23</sup> and urge the Bureau to limit information in a manner that does not overly burden auction applicants.

Several commenters suggest that bidders need to know the information about bidders and bid amounts because it will provide information during the course of the auction about which

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<sup>19</sup> Verizon Wireless Comments at 3.

<sup>20</sup> For example, commenters suggest that some bidders might be interested in a "fill the gap" kind of strategy. *See* Comments of RTG at 3. Others are interested in acquiring spectrum to expand their next generation offerings across their entire footprint.

<sup>21</sup> Auction No. 31 Public Notice at 11526 (2000).

<sup>22</sup> Verizon Wireless Comments at 4-6. Limiting information about bidders and bidding will lead to a better auction environment in which the focus rightfully is on licenses and their value, not on other bidders and their bidding strategies.

<sup>23</sup> *See, e.g.*, Cingular Comments at 9.

technology or services offerings might eventually be used in a neighboring geographic region.<sup>24</sup> Such statements are misinformed. In the first place, licenses can change hands as often as each round – there is really very little known about who will be the eventual high bidder on a license until much closer to the end of the auction. Second, this approach also incorrectly suggests that a bidder can identify with certainty other bidders' future technology choices. Third, as we discuss above, given past practices, particularly without any package bidding, licenses are likely to change hands before they are built out. The Commission should encourage bidding based on strong business cases developed prior to auction, not on speculation about which carriers might acquire which licenses in the auction and carriers' technology choices.

The Bureau also should dismiss concerns that financial markets need to be kept aware of individual applicant's bids and bidding levels on a round by round basis.<sup>25</sup> Discussions of the quick conduct of large electricity auctions or T-bill auctions are not germane here.<sup>26</sup> What is germane is that carriers privately bid for spectrum on a regular basis in the secondary market and do not reveal publicly the nature of their bids, or that they are bidding. These transactions are rarely completed in days, but can take weeks or months to reach a final signed agreement. Several parties may be vying for the same license or, in the case of a disaggregation or partitioning, parts of the same license. Not only are the bids not disclosed to the public, the bids are not disclosed to other bidders. The only information the Commission should disclose is that

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<sup>24</sup> Leap Comments at 9-10; MetroPCS Comments at 10; USCC Comments at 16-17; T-Mobile Comments at 8.

<sup>25</sup> T-Mobile at 8; Columbia Capital and MC Venture Partners Joint Comments at 7.

<sup>26</sup> T-Mobile Comments, Declaration of Peter Cramton at ¶ 17, n. 3.

a carrier is an applicant in the auction,<sup>27</sup> and that, at the close of the auction, it is high bidder on a particular license or set of licenses.<sup>28</sup>

Finally, Verizon Wireless disagrees with Metro PCS, which suggests that the withdrawal penalty be kept at three percent.<sup>29</sup> Contrary to Metro PCS's assertions, and Verizon Wireless explained in its comments, even a flat 10 percent payment is unlikely to have the deterrent effect the Commission envisioned in its recent CSEA Order.<sup>30</sup> In order to reduce the risk of speculative bidding behavior in late rounds when it can be so damaging, for an auction as important as Auction No. 66, the Bureau should implement the "tiered" withdrawal payments approach contemplated by the Commission.<sup>31</sup>

#### IV. CONCLUSION

Verizon Wireless believes the public interest would be best served if the Bureau were to offer some portion of the AWS-1 licenses in an auction with package bidding, hold those auctions consecutively, and limit information available about bidders and bidding during the

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<sup>27</sup> As Verizon Wireless indicates in its comments, knowing the identity of applicants in the auction is critical to applicants' compliance with the Commission's anti-collusion rules.

<sup>28</sup> Some bidders also simply assert that blind bidding will either disadvantage them or will favor one group over another, but offer no evidence as to why. MetroPCS Comments at 4, n. 6. It is also difficult to credit T-Mobile's claim that it will be disadvantaged by the fact that "[m]ost potential bidders know that T-Mobile has certain spectrum needs and will be able to estimate how much spectrum T-Mobile is targeting in particular markets." T-Mobile comments at 6. Verizon Wireless would think that this is precisely the reason that T-Mobile should favor blind bidding. Unless it plans to acquire all 90 MHz in any geographic region, under blind bidding it would be impossible for other bidders to determine where T-Mobile is bidding.

<sup>29</sup> Metro PCS at 16.

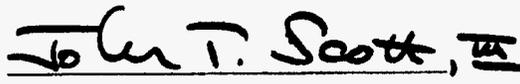
<sup>30</sup> See VZW Comments at 9.

<sup>31</sup> Implementation of the Commercial Spectrum Enhancement Act and Modernization of the Commission's Competitive Bidding Rules and Procedures, *Report and Order*, FCC 06-4 (rel. Jan. 24, 2006) at ¶ 31.

course of the auction for both auctions with the modifications that VZW proposes in its comments. Verizon Wireless respectfully requests that the Bureau adopt the proposals it describes more fully above and in its initial comments to the Public Notice.

Respectfully submitted,

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