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March 7, 2007

Via ECFS

Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Re: United States Cellular Corporation
Ex Parte Presentation
WT Docket No. 06-150

Dear Ms. Dortch:

On behalf of United States Cellular Corporation, this is to provide additional information opposing use of package bidding methodologies for the selection of winning bidders in the auction of Upper and Lower 700 MHz spectrum.

We continue to support the use of a single standard SMR auction, as was so successfully used in the AWS-1 Auction #66, to afford bidders with the simplest and most flexible means of obtaining single 700 MHz licenses or aggregations of such licenses. We believe this approach will increase competition and efficiency in the auction and importantly will enhance opportunities for successful participation by smaller bidders. The Commission should not distort the appropriate balance of small and large licenses under the Balanced Consensus Plan by carving off some licenses (even just the EAG licenses) and subjecting them to package bidding.

In the attached ex parte statement dated March 6, 2007, Professor Robert J. Weber, J.L. Kellogg Graduate School of Management, Northwestern University, explains (1) that the withdrawal by EchoStar from Auction #66 is not necessarily evidence of an "exposure" problem and that the validity of any such claim is contradicted by the example of the aggregation of AWS-1 licenses by SpectrumCo, (2) that there are numerous material issues beyond the solution of the "winner

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determination" problem which remain unresolved and that a public forum rather than the typical public notice procedures used by the Wireless Telecommunication Bureau to obtain comment on proposed auction methodologies is essential to address such complex and potentially controversial matters, (3) that the "25% premium" suggestion of Milgrom and Wrege as a way of dealing with the threshold problem is clear affirmation of the threshold problem facing smaller bidders under package bidding and the inability of the current proposals to cleanly deal with that problem, and (4) that any form of limited package bidding which necessarily helps some bidders, while not offering offsetting advantages to other bidders, inappropriately and unfairly biases the auction rules in order to satisfy the expressed desires of one group of bidders over others.

Pursuant to section 1.1206(b) of the Commission's rules, an electronic copy of this letter is being filed.

In the event there are questions regarding this matter, please contact the undersigned.

Very truly yours,



George Y. Wheeler

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**Statement of Robert J. Weber, the Frederic E. Nemmers Distinguished Professor of
Decision Sciences at the Kellogg School of Management (Northwestern University)
in WT Docket No. 06-150**

Several commenters have recently proposed consideration of some form of “limited package bidding” for the upcoming 700 MHz auction. A claimed advantage of such an approach is that the “winner determination” problem would be computationally tractable (while a “full” package bidding approach would raise computational challenges for both the FCC and for bidders).

Much of the claimed justification for consideration of some type of package bidding is based on the (observed and explicated) behavior of Wireless DBS in the AWS auction last year, and on the results of auction experiments reported by Georee, Holt, and Ledyard.

We feel that this justification for introducing a new, untried, as-yet-not-even-fully-defined type of auction procedure in this important upcoming auction is weak. Furthermore, we believe that substantial further development, public explanation, and discussion of the details involved in implementing limited package bidding is required before the FCC should give any consideration to such a dramatic change from the SMR auction procedure that, to date, has served both the public interest and the industry quite well.

Finally, we fear that the use of limited package bidding – with a set of packages chosen to serve the desires of a few large bidders – will work unfairly, inappropriately, and against the public interest by tilting the playing field against regional and smaller bidders.

1. Is package bidding necessary for the 700 MHz auction?

The withdrawal of Wireless DBS from the AWS auction (Auction 66) is cited by EchoStar, as well as by commenters such as Milgrom and Wrege, and Rosston, as evidence of an “exposure” problem faced by Wireless DBS under the FCC’s SMR auction rules. However, Wireless DBS essentially stopped bidding after round 11 in that auction, at a time when the REAG licenses were priced at less than half of their final auction prices. Indeed, SpectrumCo was also actively competing for REAG licenses at that point, yet was able to subsequently shift its bidding strategy in order to achieve near-nationwide coverage in a single spectrum block via the acquisition of BEA licenses.

One could easily interpret Wireless DBS’s entry and early withdrawal merely as a “test of the waters” in anticipation of the 700 MHz auction. Indeed, if they wanted to strengthen their argument for the use of nationwide package bidding in the 700 MHz auction, what better way than to enter and quickly leave the AWS auction, and then offer a self-serving interpretation of the exit?

Furthermore, we continue to believe that the auction experiments of Georee et al failed to address many of the concerns we expressed in a previous filing (Comments on Public Notice (DA 05-1267)) with respect to those (at the time, proposed) experiments, and so – for reasons already on record – we see the results of those experiments as academically interesting, but of little practical relevance in guiding the FCC’s choice of auction rules.

2. Issues beyond the solution of the “winner determination” problem are critical, and have not yet been discussed, let alone resolved.

We believe that Milgrom and Wrege properly proposed a serious public forum for discussion prior to adoption of even a limited version of package bidding for the 700 MHz auction. (Comments filed 9-20-06, p. 5; Reply Comments filed 10-20-06, p. 6.) In particular, issues involving the current formulae for determination of minimum bid increments require further public explication and debate, since the procedure is opaque enough that many smaller participants don't yet understand its operation and its strategic implications. (We raised some of these issues already in our filing in DA 05-1267 on the proposed experiments.)

The Milgrom and Wrege reply comment notes, “Unlike the simultaneous multiple round auction in which a bid that is not a provisionally winning bid at some round can never become a winner, currently losing bids can become winners in later rounds in certain package auctions. That fact complicates the specification of a suitable activity rule, the computation of minimum acceptable bids, and the determination of what to do when a bidder wishes to replace its bid on one license with its bid on another.” (Reply Comments filed 10-20-06, p. 6, Fn 19.) We agree that it is not clear how or whether bid reactivation should/would work in a limited package-bidding environment, especially since the reactivation procedures currently on record require that all of a bidder's bids in a single round be viewed as a “package” of bids.

With limited package bidding, one must presume that multiple bids in the same round are not necessarily viewed as a single package bid. Therefore, regional and other smaller bidders face a new coordination problem: In order to “top” a standing bid on a package of licenses, several bidders must simultaneously choose to (and be free to!) shift their bidding activity from provisionally-winning bids on other licenses (outside of the package) to prospectively-losing bids on pieces of the package. At the same time, the FCC's proposed “minimum-acceptable-bid-ratcheting” procedures might well over-price pieces of the package (or force smaller bidders into distorted strategies merely to hold back the rate of price increase on licenses actually of interest to them).

With respect to limited package bidding, we therefore endorse their statement (Reply Comments filed 10-20-06, p. 6.) that “... the auction rules *could* be further refined in advance of the auction for the 700 MHz bands,” with the proviso that “could” should be replaced by “MUST.” The new issues needing to be addressed would likely require more extensive public discussion than a typical “comments” round provides.

3. The threshold problem still hasn't been properly addressed.

Rosston echoes the “25% premium” suggestion of Milgrom and Wrege as a way of dealing with the threshold problem created for smaller bidders by the use of package bidding, but acknowledges that there's currently no economic model that points to the “right” number.” This clearly reflects both an acknowledgement of the threshold problem facing smaller bidders under package bidding, and of the inability of the current proposals to cleanly deal with that problem (leading, instead, to a very ad hoc attempt at resolution). To the extent that the new coordination problem mentioned in the previous section exacerbates the threshold problem, a limited package bidding system disadvantages smaller bidders even more than a full package bidding system would.

4. Limited package bidding tilts the playing field.

Certainly, to allow bidding on, for example, a national or super-regional package offers a presumed benefit to bidders seeking such a package. (Otherwise, there'd be no reason to even consider package bidding.) But then, why should the desires of bidders with business plans calling for national or super-regional coverages be given a unique advantage which package bidding confers over smaller bidders?

Any form of limited package bidding necessarily helps some bidders, while not offering offsetting advantages to other bidders whose most-desired packages are not offered.

Biasing the auction rules in order to satisfy the expressed desires of one group of bidders over another is totally inappropriate.

In summary, we believe that the use of limited package bidding in the 700 MHz auction is unnecessary, would create auction-design issues which have not yet been carefully addressed, and would unfairly impose strategic burdens on smaller bidders which would place them at a substantial disadvantage in the auction.

Respectfully submitted by Robert J. Weber

March 6, 2007

Robert J. Weber is the Frederic E. Nemmers Distinguished Professor of Decision Sciences at the Kellogg School of Management, Northwestern University. Educated at Princeton and Cornell, he was a faculty member of the Cowles Foundation for Research in Economics at Yale, and taught in the Yale School of Organization and Management, prior to joining the Kellogg faculty in 1979.

His general area of research is game theory, with a primary focus on the effects of private information in competitive settings. Much of his research has been centered on the theory and practice of competitive bidding and auction design. His 1982 paper, "A Theory of Auctions and Competitive Bidding" (*Econometrica* 50, co-authored with P.R. Milgrom), is considered a seminal work in the field. He served as an external consultant on a 1985 project leading to revisions in the procedures used to auction petroleum extraction leases on the U.S. outer continental shelf, and he co-organized (with representatives of the Federal Reserve Board and the U.S. Treasury) the 1992 public forum which led to changes in the way the Treasury auctions its debt issues. He has represented private clients during both the rule-making and bidding phases of the FCC's sale of licenses of spectrum for the provision of personal communications services.