

# COVINGTON & BURLING LLP

1201 PENNSYLVANIA AVENUE NW WASHINGTON  
WASHINGTON, DC 20004-2401 NEW YORK  
TEL 202.662.6000 SAN FRANCISCO  
FAX 202.662.6291 LONDON  
WWW.COV.COM BRUSSELS

July 23, 2007

The Honorable Kevin J. Martin  
Chairman  
Federal Communications Commission  
445 12th St., SW  
Washington, DC 20554

Re: Auction Rules: WT Docket Nos. 96-86, 06-150; PS Docket No. 06-229

Dear Chairman Martin:

Frontline Wireless here comments on the mechanics of the auction process reported (correctly or incorrectly) to be included in the draft decision in the above proceedings. Frontline is a prospective bidder in the 700 MHz auction. The following comments go to the mechanics of the auction and how they shape whether the auction succeeds. If the auction fails, for example because it does not meet its reserve price targets, virtually all constituencies would be harmed, including public safety and the bidders. The Commission should adopt a series of tweaks to its reported auction proposals in order to avoid such a result.

Here are Frontline's suggestions:

(1) **There should not be a total reserve price for all of the auctions, as well as a reserve price for the individual auctions.** For example, if the proposed reserve price for the total auction package were \$10 billion and for a particular spectrum block it were \$5 billion, the entire auction (even for that particular spectrum block) would be thrown out even if the high bid for that block were \$8 billion but the total bids for all auctions were less than \$10 billion. Such an outcome would be viewed as nonsensical; could reduce overall auction revenues; would throw all the auctions into uncertainty; would necessitate a re-auction perhaps with different service rules which would require many months to devise, take comment on and resolve; would substantially delay payments into the U.S. Treasury as required by law; and would postpone the construction and launch of needed new services, especially for public safety. Setting a reserve price for all of the spectrum to be auctioned might well induce large would-be bidders, such as the incumbents, to sit out the first auction in the hope that the reserve price would not be met and that then they could lobby for different service rules.

(2) **Reserve prices should be set in accordance with commercial auction practices and theory.** Typically, a reserve price is used as a starting point for bidding, not an ending point. It is well-accepted that auction houses establish reserve prices well below hoped-for

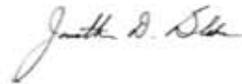
revenues because doing so encourages bidders and leads to higher total revenues. That incentive is especially needed to encourage the participation of new entrants and small businesses for whom a high reserve price will be a major deterrent to raising the capital necessary to bid. This is true even if large companies have expressed a willingness to pay the reported reserve price.

(3) **The reserve price is set at a level that is 15 times higher than the AWS reserve price.** Using the full per-pop bid price in the AWS auction to establish the reserve price for the auctions at issue here is not appropriate (a) because it will discourage participation, as explained above, and (b) because the two sets of auctions are not comparable. The spectrum auction blocks are different in the amount of spectrum involved and the geographic size, different service rules (for example, buildout requirements) will apply and the industry context has evolved.

(4) **The proposal to alter the spectrum blocks and service rules if the reserve price target is not met sounds like an allocation decision being driven by revenue considerations.** That of course would be a violation of Section 309(j)(7) of the Act.

Finally, the Commission should handle the processes leading up to this auction as it has previous auctions. Specifically, it should arrange to provide notice and a brief comment period for the specific mechanics and procedures of the auction, i.e., the so-called auction rules. Accordingly, to the extent the procedures and mechanics are included in the document the Commission will be voting on next week, the Commission should invite comment on them. If these proposals are contained in a separate public notice, as in the past, opportunity for comment should also be provided. In either event, the Commission should not deviate from its practice of providing notice of its proposed auction procedures and allowing parties to comment.

Respectfully submitted,



Jonathan D. Blake  
*Counsel to Frontline  
Wireless, LLC*

cc: Commissioner Jonathan S. Adelstein  
Commissioner Michael J. Copps  
Commissioner Robert M. McDowell  
Commissioner Deborah Taylor Tate