

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

Connect America Fund)	WC Docket No. 10-90
)	
A National Broadband Plan for Our Future)	GN Docket No. 09-51
)	
Establishing Just and Reasonable Rates for Local Exchange Carriers)	WC Docket No. 07-135
)	
High-Cost Universal Service Support)	WC Docket No. 05-337
)	
Developing a Unified Intercarrier Compensation Regime)	CC Docket No. 01-92
)	
Federal-State Joint Board on Universal Service)	CC Docket No. 96-45
)	
Lifeline and Link Up)	WC Docket No. 03-109
)	
Universal Service Reform -- Mobility Fund)	WT Docket No. 10-208
)	
Mobility Fund Phase 1 Auction Scheduled for September 27, 2012, Comment Sought on Competitive Bidding Procedures for Auction 901 and Certain Program Requirements)	AU Docket No. 12-25
)	

COMMENTS OF VERIZON¹

The Commission proposes a solid framework to launch the first phase of the mobility fund in 2012 and to begin transitioning the larger high cost program to competitive bidding.² A more rational procurement approach to the Universal Service Fund (USF), particularly as the new broadband programs come on-line, is overdue. Starting this process with the mobility fund this year makes sense given the limited scope of available phase 1 support. This program will

¹ The Verizon companies participating in this filing are the regulated, wholly owned subsidiaries of Verizon Communications Inc., and Verizon Wireless (“Verizon”).

² *Mobility Fund Phase 1 Auction Scheduled for September 27, 2012, Comment Sought on Competitive Bidding Procedures for Auction 901 and Certain Program Requirements*, Public Notice, AU Docket No. 12-25, DA 12-121 (Feb. 2, 2012) (“Public Notice”). Verizon will provide comments on areas potentially eligible for mobility fund support at a later date consistent with the bifurcated comment cycle in the Public Notice.

award one-time grants, not ongoing funding, to upgrade mobility service to 3G (or better) in those few areas where 3G speeds are still not available. Overall, the specific mobility fund auction rules proposed in the Public Notice appear workable. Going forward, the Commission should be prepared to make adjustments to new competitive bidding procedures based on actual experience. As in the past, Verizon spectrum auctions experts have reviewed the competitive bidding proposals in the Public Notice and offer a few more specific responses to individual questions or comments on technical matters described below.

DISCUSSION

1. *Service area definitions.* Once the Commission finalizes its list of census blocks that lack access to 3G (or better) service, the Commission proposes either to (1) allow phase 1 mobility fund bidders to aggregate eligible census blocks and define their own service territories, subject to certain conditions; or (2) require bidding on predefined census block aggregations. See Public Notice ¶¶ 31-45; Attachment A. The Commission’s preferred approach is to allow for bidder-defined aggregations. See *id.* ¶ 30. Verizon agrees. Bidder-defined aggregations are essential to the success of this early phase of the mobility fund. Overall, the Commission should seek to maximize participation in the mobility fund in order to keep the program on budget and help ensure meaningful 3G (or better) coverage gains that will benefit consumers in rural areas. This is only possible if wireless carriers seeking to serve consumers in these areas have input into what they can do, where they can deploy, and how much subsidy is actually required. Particularly with respect to “horizontal build” decisions where carriers will be deploying network facilities to provide new service, carriers themselves are in the best position to know what infrastructure (e.g., towers, fiber) and what local challenges (e.g., rights-of-way) may be impediments. Indeed, all carriers need to be able to tailor support to underserved areas that often

have very localized challenges. These areas lack 3G (or better) coverage today for myriad reasons that sometimes are not obvious and may not be appropriately accounted for in predefined territories.

2. **Coverage requirements.** The Commission seeks comment on the percentage of road miles that winning bidders must cover in subsidized areas. The Public Notice proposes a 95-100 percent coverage requirement if bidder-defined aggregations are allowed, and a 75 percent coverage requirement under a predefined aggregation approach. *See id.* ¶¶ 36, 43. For reasons discussed above, Verizon would not force mobility fund participants to bid on predefined service territories. With bidder-defined aggregations, a 95 percent road mile coverage requirement may still be aggressive but potentially doable. A 100 percent coverage requirement, however, could substantially increase the risk of unsuccessful auctions. There will undoubtedly be a small percentage of road miles in many census blocks that are not economic to reach on almost any terms. Local terrain, seasonal weather considerations, extremely low-density road miles, and other issues may make an absolute, 100 percent coverage requirement prohibitive in some instances.

3. **Bidding procedures/selecting a winner.** The Commission seeks comment on a number of bidding procedure and mechanical details of administering the phase 1 mobility fund auctions. The Commission proposes a single-round auction process where winning bids are selected using a mathematical optimization procedure. *See id.* ¶¶ 25-27, 34. As phase 1 of the mobility fund is now envisioned, a single-round auction approach should be sufficient. Given the limited scope of the program, the Commission appropriately envisions a relatively simple—and quick—bidding process. The Commission may, however consider a maximum of three rounds. The Commission's spectrum auctions are multi-round procedures, and wireless carriers

are already accustomed to multiple rounds of bidding. A few additional rounds also have the benefit of giving bidders an opportunity to adjust bids based on auction conditions that cannot be known until the auction begins.

The Commission also proposes not to establish either maximum per-unit bid amounts or a reserve for a particular phase 1 auction. *See id.* ¶¶ 56-57. In a streamlined, single-round auction format this generally makes sense. The Commission has already defined the overall budget for phase 1 of the mobility fund (\$300 million). The Commission should adhere to that budget, but additional, strict capping mechanisms beneath it may deter participation and have unintended consequences. However, to avoid the theoretical potential for a windfall in an individual auction if the Commission’s assumption that the program will be oversubscribed turns out to be wrong, the Commission may want to build in a review mechanism to reject unrealistically high bids that are divorced from any rational economy of scale.

In addition, Verizon does not see an issue with using a mathematical algorithm to select winning bidders, provided (as the Commission has done in the past) that the calculation is published in advance of the auction and all parties have a fair opportunity to understand and evaluate the formula.

4. ***Performance default payments.*** The Commission seeks comment on the amount of a “penalty” winning bidders must pay if they fail to satisfy their service obligations, proposing that such carriers should forfeit as little as 5 percent of the award amount. *See id.* ¶¶ 59-62. A penalty this small seems too low and unlikely to deter undesirable gamesmanship in the bidding process. In a single-round (or even three-round) auction, the chance that a bidder will “get stuck” with a winning bid that is not financially viable is small. A performance default payment in the 25 percent range makes more sense. With so few rounds of bidding—potentially just one

round—carriers must perform significant up-front financial and engineering analysis, and actually be prepared to take on service obligations should they win the bid. This bidding situation is not analogous to a simultaneous, multiple round auction format where bidders are not expected to approach their “bottom line” until much deeper into the auction.

5. **Public disclosure of bidder information.** The Commission seeks comment on what information to release about the identity of bidders and their bids during and after the auction. *See id.* ¶¶ 51-52. The Commission proposes to keep most information confidential until bidding is closed. *See id.* As in the past, Verizon supports confidential bidding. Even if bidding is limited to one round, limiting disclosure of bidder and bid information prior to and during the auction will help reduce collusive behavior and ensure that consumers who pay for the USF get the most value for their investment. In submitting their pre-auction paperwork, potential bidders will still have adequate time to partner with other bidders in ways that make sense.

6. **Reasonably comparable rates.** The Public Notice asks a number of questions about how to ensure that end-user rate plans offered by winning bidders in particular areas are reasonably comparable to rates offered in urban areas. *See id.* ¶¶ 65-70. There are several workable approaches, but in general there is little risk that pricing in supported areas will be unaffordable. As a practical matter, providers that win the bid have every incentive to keep their prices reasonable in order to attract customers and satisfy their business case to participate in the auction in the first place. One workable approach would be to look at the winning provider’s lowest priced monthly access plan and compare both the real-dollar monthly recurring charge and the per-minute or data unit yield (i.e., the monthly charge divided by the number of minutes or data units allowed under the plan) to that carrier’s urban rates or an urban rate average.

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The Commission is off to a good start with phase 1 of the mobility fund and should move forward quickly to finalize workable competitive bidding procedures that can—if successful—serve as a model for other USF programs going forward.

Respectfully submitted,

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