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Electronic Submission

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street S.W.
Washington, D.C. 20554

Re: *In the Matter of Expanding the Economic and Innovation Opportunities of
Spectrum Through Incentive Auctions, GN Docket No. 12-268*
NOTICE OF ORAL EX PARTE PRESENTATION

Dear Ms. Dortch:

On Friday, October 25, 2013, Joan Marsh, Gary Phillips, Michael Goggin, Alex Starr and the undersigned of AT&T Services, Inc. (AT&T), met with Gary Epstein and Edward Smith of the Incentive Auctions Task Force, Ruth Milkman, Joel Taubenblatt, Susan Singer, Martha Stancill, Margaret Wiener and Michael Janson of the Wireless Telecommunications Bureau, and Evan Kwerel and Steve Wildmon of the Office of Strategic Planning.

The purpose of the meeting was to discuss eligibility and package bidding issues related to the incentive auction proceeding. The attached presentation served as the basis for that discussion.

If you have any questions or need additional information, please do not hesitate to contact me. Pursuant to section 1.1206 of the Commission's rules, this letter is being filed electronically with the Commission.

Sincerely,

/s/ Brian Benison

cc: Gary Epstein Edward Smith
Ruth Milkman Joel Taubenblatt
Susan Singer Martha Stancill
Margaret Wiener Michael Janson
Evan Kwerel Steve Wildmon



at&t

**THE 600 MHz FORWARD
INCENTIVE AUCTION**

**PRINCIPLES FOR
MAXIMIZING SUCCESS**

OVERVIEW

To maximize the likelihood and scope of success in the 600 MHz Forward Incentive Auction, the Commission should:

- Allow unfettered participation by all qualified bidders
 - Restricting bidding ability of AT&T and Verizon not necessary to protect competition.
 - Restricting bidding ability of AT&T and Verizon would reduce auction revenues, decrease funds available for FirstNet and deficit reduction, reduce cleared spectrum amounts, and risk auction failure.
- Adopt Hierarchical Package Bidding
 - Exposure risk reduced, encouraging robust bidding.
 - Bids win based on highest economic value, not size of area sought.

THE PURPOSE OF SPECTRUM AGGREGATION RULES IS TO PREVENT FORECLOSURE IN DOWNSTREAM MARKETS

There is broad agreement that the purpose of a spectrum aggregation limit is to prevent foreclosure in downstream markets and that such limits are inappropriate absent substantial risk of such foreclosure.

A successful foreclosure strategy requires a provider both:

- To acquire so much of the available spectrum that it could raise the cost facing other firms by an amount sufficient to have a *significant* effect on downstream competition, and
- To have the ability to recoup the cost of its campaign to acquire and warehouse spectrum in higher prices for wireless services.

Spectrum aggregation policy should protect competition, not individual competitors.

- The question is not whether one provider has acquired spectrum that would benefit another provider, but whether the acquisition impairs competition itself.

MARKET FORECLOSURE VIA THE 600 MHz AUCTION WOULD BE IMPOSSIBLE

- There are four strong national wireless providers with large spectrum portfolios that have built or are building ubiquitous wireless broadband networks.
- The approximate 70 MHz yield expected* from the 600 MHz auction is too small to permit foreclosure, given the more than 500 MHz of spectrum now available for mobile wireless services, with more coming online next year.
- Most mobile wireless spectrum licenses are subject to build-out requirements that preclude “warehousing.”

** Example based on a 2x35 band plan.*

SPRINT HAS SUBSTANTIAL SPECTRUM AND FINANCIAL RESOURCES

- Sprint is by far the largest spectrum holder in the country, with an average of almost 200 MHz in the top 100 markets.
- As its new owner, Softbank, has already done in Asia, Sprint plans to deploy LTE nationwide on its 2.5 GHz spectrum by mid- 2014.
- Sprint CEO has said this deployment will help give Sprint “competitive parity” and “will give us extraordinary capacity and some speed and performance advantages in the market.”
- Sprint’s CFO recently said that Sprint has plenty of “runway” to continue selling unlimited data plans, and that “we feel good about... our portfolio [of] spectrum vs. the competition”.
- With backing from Softbank, Sprint can well afford to pay market price for any spectrum it decides to purchase – if it decides to participate in the auction.

T-MOBILE HAS SUBSTANTIAL SPECTRUM AND FINANCIAL RESOURCES

- T-Mobile has acquired large amounts of spectrum from AT&T, Verizon and MetroPCS (and is seeking more from U.S. Cellular).
- T-Mobile has become the dominant holder of AWS-1 spectrum, and it has used those holdings to launch a nationwide LTE offering that covers over 200 million people.
- In 2Q 2013, T-Mobile reported postpaid net adds of 688,000. Since T-Mobile merged with MetroPCS on May 1, its stock is up nearly 75%.
 - In an October 9 News Release, T-Mobile boasted that since late March it has won more net new postpaid customers than AT&T, Verizon and Sprint combined.
- T-Mobile's advertisements claim that its network is faster than AT&T's because it is less congested.
- Like Sprint, T-Mobile offers unlimited data plans.
- Owned by one of the largest telecom companies in the world, T-Mobile also can well afford the pay market price at the auction.

A BASIC REALITY CHECK SHOWS THAT HAVING LOW-BAND SPECTRUM IS NOT NECESSARY TO COMPETE EFFECTIVELY

- Sprint and T-Mobile are competing very successfully without low frequency spectrum.
- Both chose not to participate in the 700 MHz auction.
- When Verizon offered its 700 MHz A and B Block spectrum, T-Mobile declined and fought aggressively, instead, for AWS divestitures.

THERE IS NO ECONOMIC OR ENGINEERING BASIS TO TREAT LOW-BAND SPECTRUM DIFFERENTLY FOR PURPOSES OF SPECTRUM AGGREGATION POLICY

- Those who argue for limits on low-band spectrum assert that such spectrum has better propagation than high frequency spectrum and therefore costs less to deploy.
- This purported advantage is irrelevant because:
 - Differences in the cost of build-out will be reflected (and offset) in the cost of the spectrum.
 - In non-rural areas, today's network challenges primarily concern capacity, not coverage.
 - In non-rural areas, providers must build dense networks whether they hold high-band or low-band spectrum.
 - As networks densify, higher frequency bands will be viewed as increasingly valuable specifically because they do not propagate too far thereby reducing interference.
 - In rural areas, no credible claim of foreclosure.
 - No indication from T-Mobile that it intends to expand its rural footprint.

BIDDING RESTRICTIONS ON AT&T AND VERIZON WOULD UNDERMINE THE 600 MHz AUCTION

- A central principle in the theory of auctions is that unfettered participation will maximize revenues.
 - While it is theoretically possible for auction restrictions to enhance revenues, none of the preconditions (all of which are necessary) for that to occur exists.
- Here, rules precluding participation by AT&T and Verizon would likely reduce auction revenues by billions of dollars.
 - Argument that excluding AT&T and Verizon could enhance participation and increase revenue is self-contradictory. If others are willing to pay more than AT&T and Verizon, then exclusion is not necessary. If others are not willing to pay more, then exclusion would yield less revenue.
- In the context of this unique two-sided auction, lower revenues would likely reduce the amount of spectrum made available for mobile services, threaten FirstNet funding and deficit reduction, and possibly lead to failure of the auction altogether.
- Even if the auction clears, limits on participation will result in a less efficient allocation of spectrum.

T-MOBILE'S PROPOSED CAP ON LOW BAND SPECTRUM WOULD EXCLUDE AT&T

- Assuming an 84 MHz clearing target, the spectrum cap that T-Mobile proposes, set at 1/3 of low band spectrum, would completely bar 2 of T-Mobile's largest 3 rivals from bidding against T-Mobile in most of the top metropolitan areas in the U.S.
- AT&T would be barred from bidding at all in 8 of the top 10 EAs.
- AT&T would be barred from bidding on a 10X10 MHz pair -- which even T-Mobile correctly acknowledges is the minimum channel size necessary to materially employ LTE's efficiencies -- in all of the top 10 EAs and 49 of the top 50.
- VZW reports that it would be excluded in 7 of the top 10 EA's and 13 of the top 20.
- T-Mobile's recent critique of these numbers is fatally flawed.

T-MOBILE'S "DYNAMIC MARKET PROPOSAL" DOES NOT CURE THE PROBLEMS CREATED BY ITS PROPOSED SPECTRUM CAP

- DMP would not prevent substantial reductions in auction revenue.
- DMP would substantially reduce competition in the auction by capping T-Mobile's two largest rivals' ability to bid.
- DMP would not ensure that caps do not lead to the failure to satisfy closing conditions at a given spectrum target.
- DMP could reduce the total quantity of spectrum reallocated or even lead to an auction failure.

DMP WOULD INTRODUCE SIGNIFICANT NEW PROBLEMS

- Additional complexity
- Exposure risks
- Impaired price discovery
- Incentives for manipulative bidding

HIERARCHICAL PACKAGE BIDDING WOULD MINIMIZE EXPOSURE RISK AND THUS MAXIMIZE REVENUE AND CLEARED SPECTRUM

- Bid-suppressing exposure risk occurs where, as here, significant geographic complementarities exist.
- The bid suppressing effects of this exposure risk may be more damaging in this auction, as it is likely to reduce the amount of spectrum allocated and could frustrate the statutory goals of FirstNet funding and deficit reduction.
- Hierarchical package bidding (HPB) minimizes exposure risk by permitting bidders to express the full value of geographic complementarities in their bids.
- As a result, HPB would foster widespread and robust auction participation, in which demand from all bidders is fully expressed, maximizing the amount of spectrum reallocated and generating higher revenues.

AT&T'S HPB PROPOSAL IS SIMPLE, TRANSPARENT AND FAIR

- AT&T proposes a simple form of HPB, with each pre-defined package (EAs, MEAs, and REAs) fully nested within the next-larger pre-defined package.
- A package bidder would win only if the total bid for the package exceeds the sum of the bids for individual licenses included in the package.
- HPB does not favor package bidders over individual bidders.
- Winning bids are selected solely on the basis of which bids express – and can be presumed to produce – the greatest economic value for consumers.
- HPB does not add computational or strategic complexity.
- HBP does not create any new “threshold” issue not already present in NPRM’s Auctionomics proposal due to geographic complementarities.
- H Block Order provides no basis to avoid HPB here.