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December 20, 2013

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BY ECFS

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street S.W.
Washington, DC 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 Wednesday, December 18, 2013, Preston Padden, Executive Director of the Expanding Opportunities for Broadcasters Coalition (the "Coalition"), met with Renee Gregory and Gigi Sohn from the Office of Chairman Thomas Wheeler, and separately met with Erin McGrath from the Office of Commissioner Michael O'Rielly. On Thursday, December 19, 2013, Mr. Padden met with Clint Odom from the Office of Commissioner Jessica Rosenworcel.

During the meetings, Mr. Padden stressed that broadcaster participation is critical to the success of the incentive auction and that the Commission needs to be more proactive in its efforts to attract broadcaster participation. Mr. Padden explained that Media Bureau Chief William Lake and the Media Bureau staff have done a commendable job with the tools they have been given; however, he added that given the many opportunities that television stations will have to further monetize their spectrum, including the possibility of utilizing a new digital modulation standard to lease spectrum to wireless carriers through the so-called "Tower Overlay" model, the FCC must convince broadcasters that the incentive auction presents a more immediate and viable option. Auction pricing – particularly the FCC's initial offer to broadcasters in a descending clock auction – is the single most important element that broadcasters will consider when determining whether to participate in the auction, and the FCC must not wait to provide facts and pricing that will allow broadcasters to evaluate auction participation among the myriad options that broadcasters have before them.

Mr. Padden also stressed that "scoring" of television stations in the auction is neither practical nor even possible. Mr. Padden shared the contents of an e-mail

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from renowned auction economist Peter Cramton of the University of Maryland, in response to Mr. Padden's request for a simple explanation of why scoring will not work:

I am not sure there is a "simple" answer, but I will try.

In theory, scoring can improve the efficiency of the repack by better optimizing the order of the repack. The ideal score selects stations for repack with the highest benefit / cost ratio. The benefit is the station's reservation value (which the clock auction reveals as the station's exit bid); the cost is the opportunity cost of repacking the station (the value that repacking the station prevents as a result of the constraints it introduces in the repack). In general, this opportunity cost calculation depends on all the repacking constraints and the reservation values of all the stations that have yet to be repacked or frozen (cleared). The opportunity cost changes as additional stations are repacked and frozen.

More simply, scoring attempts to improve the order of the repack by recognizing the costs of the constraints the station adds to the repack. These costs depend on the reservation values of the other stations that have yet to be repacked or cleared. It therefore changes as additional stations are repacked and cleared.

When stations are substitutes, then all is simple and the opportunity cost is the same for each repacked station and does not change over time. No scoring is best in this case.

However, outside of this simple case, scoring is a hopeless exercise, as seen in simple examples.

Example: C blocks A&B and A&B block C. Then we want to repack C if $C > A + B$ and repack A&B otherwise. This requires the following scores (where A, B, and C are the reservation values of the stations):

$$\text{score C} = C / (A + B)$$
$$\text{score A} = (A + B) / C$$

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$$\text{score B} = (A + B) / C$$

Both the benefits and the costs of repacking a station depend on the reservation values of other stations that have not yet been revealed in the auction.

The best the FCC could hope for is coming up with some crude weights that better reflect the relative opportunity cost of repacking a station. I really do not know how they can do this.

Sorry this is so complicated. The basic problem is that there is no good basis for scoring in this setting.

In each meeting, Mr. Padden also encouraged the FCC to adopt flexible and creative approaches to channel sharing to expand the number of broadcasters that choose to participate in the incentive auction. Mr. Padden explained that the Commission could reap a “spectrum dividend” by allowing sharing stations to relocate to a market’s central “antenna farm.” This dividend accrues because stations that are not centrally located each could preclude the use of three other channels in that market: co-channel, upper-adjacent channel, and lower adjacent channel. If, instead, these stations were to share a single, 6 MHz channel, located at the “antenna farm,” they would preclude the use of only a single channel between them. Thus, relocating two stations could produce a dividend of up to five channels, or 30 MHz, and relocating three channels could produce a dividend of up to eight channels, or 54 MHz – which would go a long way toward achieving the agency’s spectrum reallocation goals.

Finally, Mr. Padden stressed the need for the FCC to remain focused on reallocating at least 120 MHz through the broadcast incentive auction. Mr. Padden explained that the dramatic increase in streaming video over wireless networks has increased the importance of supplemental downlink, citing a recent Wall Street Journal article about congestion on Verizon’s networks in New York, San Francisco, and Chicago.¹ Mr. Padden proffered that spectrum currently occupied by television broadcasters represents the best opportunity to ease such congestion.

¹ *Ryan Knutson*, Video Boom Forces Verizon to Upgrade Network, Wall St. J. (Dec. 15, 2013), available at <http://online.wsj.com/news/articles/SB10001424052702304173704579260354018157042>.



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Respectfully Submitted,

A handwritten signature in blue ink, appearing to read "Ari Meltzer".

Ari Meltzer
Counsel to the Expanding Opportunities for Broadcasters Coalition

cc (via e-mail):

Renee Gregory
Erin McGrath
Clint Odom
Gigi Sohn