

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matters of)	
)	
Expanding the Economic and Innovation)	GN Docket No. 12-268
Opportunities of Spectrum Through Incentive)	
Auctions)	
)	
Amendment of the Commission's Rules with)	GN Docket No. 13-185
Regard to Commercial Operations in the 1695-)	
1710 MHz, 1755-1780 MHz, and 2155-2180)	
MHz Bands)	

COMMENTS OF AT&T

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Comments of AT&T

AT&T Services, Inc., on behalf of the subsidiaries and affiliates of AT&T Inc. (collectively, “AT&T”), respectfully submits these Comments in response to the Public Notice entitled “*Wireless Telecommunications Bureau Seeks Comment on a Proposal to License the 600 MHz Band Using ‘Partial Economic Areas’*”.¹

I. Introduction

In the *Incentive Auction NPRM*, the Commission proposed to use geographic area licensing to license the 600 MHz band using Economic Areas (“EAs”), of which there are 176.² A number of commenters – including AT&T – supported the Commission’s proposal to license the 600 MHz band on an EA basis; but some commenters opposed the Commission’s proposal, arguing that, to support the ability of small and rural carriers to obtain and deploy licenses, the Commission should license the 600 MHz band using Cellular Market Areas (“CMAs”), of which there are 734.³

In late 2013, the Competitive Carriers Association (“CCA”) submitted an alternative proposal for geographic area licensing in the 600 MHz band.⁴ CCA proposes that the

¹ *Wireless Telecommunications Bureau Seeks Comment on a Proposal to License the 600 MHz Band Using ‘Partial Economic Areas’*, Public Notice, DA 13-2351, GN Docket Nos. 12-268, 13-185 (rel. Dec. 11, 2013) (“*Public Notice*”).

² See, e.g., *In the Matter of Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions*, Notice of Proposed Rulemaking, 27 FCC Rcd 12357 (2012) (“*Incentive Auction NPRM*”) at ¶ 148.

³ See, e.g., *Public Notice* at 1-2. A similar situation occurred in response to the *AWS-3 NPRM*. See, e.g., *Amendment of the Commission’s Rules with Regard to Commercial Operations in the 1695-1710 MHz, 1755-1780 MHz, and 2155-2180 MHz Bands*, Notice of Proposed Rulemaking, 28 FCC Rcd 11479 (2013) (“*AWS-3 NPRM*”). Specifically, the Commission proposed to license the spectrum at issue on an EA basis; and some commenters supported the Commission’s proposal, while others urged the Commission to employ CMAs. See, e.g., *AWS-3 NPRM* at ¶¶ 51-52; Comments of T-Mobile, USA, Inc., at 28-29, GN Docket No. 13-185 (Sept. 18, 2013) (supporting EA licensing); Comments of United States Cellular Corporation at 27-36, GN Docket No. 13-185 (Sept. 18, 2013) (opposing EA licensing).

⁴ Letter from Rebecca Murphy Thompson, Competitive Carriers Association, to Marlene Dortch, Secretary, FCC, GN Docket No. 12-268 (Ex Parte dated Nov. 27, 2013) (“*CCA PEA Proposal*”); Letter from C. Sean Spivey,

Commission issue licenses based on a new geographic area that CCA has crafted and calls Partial Economic Areas (“PEAs”). As described by CCA, there would be 390 PEAs, and they would be a subdivision of EAs based on both EA and CMA boundaries.⁵ According to CCA, it designed PEAs to “ensure that some [PEA] licenses consist of large population centers while other PEAs consist of less populous areas.”⁶ In other words, in CCA’s view, PEAs separate rural from urban markets to a greater degree than EAs. Moreover, PEAs are smaller than, and wholly nest within, EAs.⁷ To specify the boundaries of its proposed PEAs, CCA attached a map, along with a chart of specific contour information.

The CCA PEA Proposal goes on to oppose package bidding in the incentive auction of 600 MHz spectrum – even if the Commission adopts PEAs -- stating cursorily that “[p]ackage bidding curtails competitive carriers’ participation in auctions and can lead to a reduction in overall revenue in certain instances.”⁸ The CCA PEA Proposal then asserts that, if the Commission were to adopt package bidding in conjunction with PEAs, the Commission should limit such bidding to a single package of no more than the ten largest PEAs by population.⁹

On December 3, 2013, AT&T responded preliminarily to the CCA PEA Proposal.¹⁰ AT&T stated that it “currently has no position on CCA’s PEA proposal as we have only just

Competitive Carriers Association, to Marlene Dortch, Secretary, FCC, GN Docket No. 12-268 (Ex Parte dated December 23, 2013)(“CCA PEA Proposal Supplement”).

⁵ CCA PEA Proposal Supplement at 1 and Attachment; CCA PEA Proposal at 2.

⁶ CCA PEA Proposal at 2.

⁷ CCA PEA Proposal at 2.

⁸ CCA PEA Proposal at 2.

⁹ CCA PEA Proposal at 2. The CCA PEA Proposal notes that CCA still prefers CMAs as the optimal license size. *Id.*

¹⁰ Letter from Joan Marsh, AT&T Services, Inc., to Marlene Dortch, Secretary, FCC, GN Docket No. 12-268 (Ex Parte dated Dec. 3, 2013) (“AT&T 12/3/13 Ex Parte”).

begun our review of CCA’s filing.”¹¹ AT&T observed that it “has long supported an EA licensing approach and continues to believe that it represents the best licensing scheme for this auction. However, if the Commission were to adopt CCA’s PEA proposal, it is all the more imperative that the Commission allow for package bidding, as proposed by AT&T, to address the even greater exposure risks that would be created by more disaggregated license areas.”¹² AT&T then “urge[d] the Commission to seek comment on the CCA PEA proposal and how that proposal could be effectuated within a package-bidding framework.”¹³

The *Public Notice* followed on December 11, 2013. It requests comments principally on the CCA PEA Proposal and integrating that Proposal with package bidding.

II. The Commission Should Adopt its Proposal to License on an EA Basis.

Choosing a geographic license area requires a careful balancing of the Commission’s public interest goals of encouraging widespread geographic buildout, including in rural areas, and providing licensees with sufficient flexibility to scale their networks. AT&T believes that the Commission got it right when it balanced those goals by proposing to license 600 MHz spectrum on an EA basis. Nothing in the CCA PEA Proposal persuasively counsels otherwise. As the Commission correctly explained:

[H]aving a large number of very small licenses may raise implementation risks for the auction designs contemplated in this proceeding. Moreover, more licenses could complicate potential bidders’ efforts to plan for, and participate in, the auction for such licenses, as well as subsequent roll-out of service.... We believe that for this spectrum, EA licensing strikes an appropriate balance between geographic granularity from a spectrum reclamation

¹¹ AT&T 12/3/13 Ex Parte at 3.

¹² AT&T 12/3/13 Ex Parte at 1.

¹³ AT&T 12/3/13 Ex Parte at 3.

standpoint and having a manageable number of licenses from an auction design standpoint.¹⁴

Indeed, the Commission has licensed (or decided to license) multiple bands of spectrum on an EA basis.¹⁵ The Commission should do so here, as well.¹⁶

III. The Commission Should Adopt Hierarchical Package Bidding, Especially If It Adopts Geographic License Areas Smaller Than EAs.

As AT&T has already explained at length in this proceeding, hierarchical package bidding is necessary, even under an EA licensing regime, to avoid a bid-suppressing exposure problem that is well-recognized both in Commission precedent and auction literature.¹⁷

Shrinking the license areas to, say, PEAs, would only exacerbate that problem and make it all the more imperative that the Commission adopt hierarchical package bidding. In other words, the smaller the geographic license area, the greater the “exposure risk” is at auction for carriers whose business plans are premised on realizing economies of scale. Accordingly, if the Commission were to disaggregate license areas below EAs, the need for package bidding would become even more acute than it already would be with EAs.

A brief review of the exposure problem should help elucidate that point. Many carriers will wish to invest in 600 MHz technology in a particular geographic area only if they can be

¹⁴ *Incentive Auction NPRM* at ¶¶ 147-48.

¹⁵ *See, e.g.*, 47 C.F.R. §§ 24.229(c); 27.6(b)(2)(i), (c)(1), (h)(2), (i), (j).

¹⁶ *See, e.g., Service Rules for Advanced Wireless Services H Block – Implementing Section 6401 of the Middle Class Tax Relief and Job Creation Act of 2012 Related to the 1915-1920 MHz and 1995-2000 MHz Bands*, Report and Order, 28 FCC Rcd 9483 (2013) (“*H Block Service Rules Order*”) at ¶¶ 39, 42 (stating that EA licensing “will facilitate access by smaller carriers because EAs are small enough to provide spectrum access opportunities to such carriers. At the same time, EAs are large enough that large carriers can aggregate them up to larger license areas, ... thus achieving economies of scale.... [T]o the extent that an entity desires to obtain access to H Block spectrum for less than an EA geographic area, secondary market transactions (e.g., partitioning) offer a possible way to obtain such access”).

¹⁷ *See, e.g., Comments of AT&T Inc., GN Docket No. 12-268* (filed Jan. 25, 2013) at pp. 51-58; *Reply Comments of AT&T Inc., GN Docket No. 12-268* (filed Mar. 12, 2013) at pp. 53-60; AT&T 12/3/13 Ex Parte.

assured of having 600 MHz spectrum holdings throughout a larger set of geographic areas, such as their regional or national service footprints. An inability to place all-or-nothing bids for such geographic packages would present a classic exposure problem, in which auction participants suppress their bids lest they “win” geographic areas that have limited value to them unless their spectrum holdings in those areas can be combined with similar spectrum holdings in other geographic areas. And that problem gets worse as geographic license sizes get smaller and more numerous, because such changes raise the chance of a carrier ending up with a “swiss cheese” footprint of 600 MHz license areas.

That exposure risk would be a concern in any auction, but it presents a particular danger in this one, with its stringent statutory closing conditions. Simply put, if the Commission precludes forward-auction participants from expressing the full value of geographic complementarities in their bids via hierarchical package bidding, it will substantially increase the risk that the auction will fail.

A concrete example helps further illustrate the severity of this exposure problem and the urgent need for a package-bidding solution. Suppose that an auction contains no package bidding mechanism, but that, because of scale economies, Bidder X can profitably build out a 600 MHz footprint in *some* Northeastern license areas only if it can deploy 600 MHz technology in *most or all* Northeastern license areas. Bidder X may find it unprofitable to invest in 600 MHz handsets and base-station equipment that can be used only in some license areas of the Northeast but not in others. And it will therefore wish to avoid paying substantial sums for certain 600 MHz license areas in the Northeast if it does not win licenses in most or all such license areas. Depending on how the auction is structured, however, Bidder X may get stuck “winning” such unwanted licenses if it bids separately in most or all of the Northeast license areas at once. For

example, the forward auctions for certain Northeast license areas might conclude early and leave Bidder X as a high bidder, while the bidding proceeds to such high levels in other Northeast license areas that Bidder X can no longer afford to remain in those auctions. Faced with that prospect, Bidder X would have a strong incentive to exit the auction process inefficiently early in order to avoid the risk of paying for spectrum that later turns out to be much less valuable than it would have been as part of a multi-area package. Thus, less revenue would be generated, less spectrum might get repurposed, and the auction might fail.

To minimize this exposure problem and thus encourage forward-auction bidders to express the value of scale economies, the Commission should follow through on its proposal to permit those bidders to place package bids. Specifically, it should permit “a single, all-or-nothing bid amount that would apply to a group of licenses, such as . . . the same block in multiple geographic areas.”¹⁸ As the Commission adds, “[p]ackage bidding options generally complicate an auction, although such complexity can be limited if certain restrictions apply to the ways bidders can group licenses.”¹⁹ One of the Commission’s key challenges is to balance the need to manage complexity against the equally important need to maximize the value of the spectrum being auctioned.

AT&T’s hierarchical package bidding proposal does just that. The “hierarchy” consists of 176 EAs nested within 52 MEAs (“Major Economic Areas”) nested within 12 REAs (“Regional Economic Areas”) nested within the nation as a whole.²⁰ Bidders could bid on an

¹⁸ *Incentive Auction NPRM* at ¶ 62.

¹⁹ *Incentive Auction NPRM* at ¶ 62.

²⁰ The Commission can slightly vary the exact number of such Areas in a particular auction, while preserving nesting. See, e.g., <http://wireless.fcc.gov/auctions/default.htm?job=maps>; <http://wireless.fcc.gov/auctions/data/crossreferences/beacnty1990.xls>; http://wireless.fcc.gov/auctions/data/crossreferences/wcs_reag_mea.xls.

EA, on a package consisting of all EAs within an MEA, on a package consisting of all EAs (and thus MEAs) within an REA, or on a package consisting of all EAs (and thus MEAs and REAs) within the United States. But a participant could *not* place a package bid for some subset of multiple EAs within an MEA, for some subset of multiple MEAs within an REA, or for various EAs scattered across the country.²¹ This nested hierarchy of permissible packages will substantially solve the exposure problem for bidders while avoiding the severe computational complexity the Commission would face in picking winners if it simply allowed bidders to define their own, partially overlapping packages.²²

Furthermore, under AT&T's hierarchical package bidding proposal, a package bidder would win the specified amount of spectrum in all EAs within its geographic package only if the total price it offers for the spectrum in that package exceeds the sum of the bids that would otherwise prevail in the absence of that bidder's package bid. As a result, the proposal neither favors nor disfavors package bidders as compared to bidders for individual EAs. Instead, it picks winners solely on the basis of which combination of bids expresses – and can be presumed to produce – the greatest economic value for consumers. In particular, by enabling bidders to express the substantial complementarities they can achieve through geographic packages, AT&T's proposal would promote economic efficiency and help maximize the odds of satisfying the closing conditions for a given spectrum-clearing target. It would also satisfy the substance of the Commission's statutory mandate to “consider assigning licenses that

²¹ For example, a participant could not make its bid for the Los Angeles EA contingent on winning its bid for the New York City EA.

²² See generally *Comment Sought on Competitive Bidding Procedures for Auction 901 and Certain Program Requirements*, Public Notice, 27 FCC Rcd 530 at ¶ 32 (2012) (proposing to limit the number of package bids based on census blocks because selecting winning bidders “can be difficult . . . with large numbers of partially overlapping package bids”).

cover geographic areas of a variety of different sizes.”²³

Given the foregoing facts, the Commission should adopt AT&T’s hierarchical bidding proposal, complete with EAs as the basic geographic unit. If the Commission wishes to adopt a smaller basic geographic unit, however, PEAs could be worked into AT&T’s hierarchical bidding proposal, as long as PEAs fully nest within EAs.²⁴ A new lowest tier consisting of PEAs could be added below EAs, and the bidding hierarchy rules described above could be amended accordingly.

If the Commission does adopt PEAs, it should not impose any other changes or limitations to AT&T’s hierarchical package bidding proposal. For example, CCA argues that the Commission should create no packages at all or, at most, a single package consisting of no more than the ten largest PEAs by population.²⁵ CCA provides no analysis to support its argument. In truth, avoiding or limiting package bidding in the manner suggested by CCA would vitiate the ability of package bidding to minimize the exposure problems outlined above; in turn, the risk that the incentive auction will clear less spectrum and raise less revenue – or fail altogether – would be maximized.²⁶

The Rural Wireless Association and NTCA-The Rural Broadband Association jointly submitted a different proposal to license 600 MHz spectrum on a geographic basis other than

²³ *Public Notice* at 3 n.17 (quoting Section 6403(c)(3) of the Middle Class Tax Relief and Job Creation Act of 2012, Pub. L. No. 112-96 § 6403(c)(3) (2012)).

²⁴ AT&T notes that it has not yet had an opportunity to examine in detail the specific PEA contours contained in the CCA PEA Proposal. Thus, for purposes of this submission only, AT&T accepts as true CCA’s description of the geographic characteristics of its Proposal. AT&T reserves the right to challenge that description at a timely juncture in the future if warranted.

²⁵ CCA PEA Proposal at 2.

²⁶ If the Commission concludes that hierarchical package bidding must be restricted in some way, AT&T believes that the crucial exposure-limiting properties of such bidding *might* be materially preserved if at least the top 100 PEAs by population were included.

EAs.²⁷ In a nutshell, under the RWA/NTCA Proposal, the Commission would conduct a bifurcated auction using EA boundaries, sort of. In the initial auction phase, forward auction bidders would bid on the basis of EAs, but each winner would receive licenses covering only the MSA (“Metropolitan Statistical Area”) or MSAs located with the relevant EA. After the bidding is completed in the initial auction phase, the remaining 429 Rural Statistical Areas (“RSAs”) would be sold in a second auction.²⁸

The Commission should reject the RWA/NTCA Proposal. First, by requiring two auctions, the RWA/NTCA Proposal adds complexity to what has already been widely acknowledged as one of the most complicated proceedings in Commission history. Second, the RWA/NTCA Proposal does nothing to mitigate the exposure problems described above. Indeed, even if package bidding were applied in the “first” auction concerning MSAs (about which the RWA/NTCA Proposal is silent), the exposure problem would continue to loom large, given the substantial RSA geographic areas available only in the second auction. Finally, by effectively reducing the license areas to relatively small MSAs and RSAs, the RWA/NTCA Proposal would entail all of the previously described auction and operational difficulties inherent with such small license areas.

The *Public Notice* seeks comment about geographic license size issues in the AWS-3 proceeding.²⁹ AT&T’s positions regarding geographic license size and package bidding are the same in the AWS-3 proceeding as stated in these Comments.

²⁷ *Public Notice* at 3 n.15 (“RWA/NTCA Proposal”).

²⁸ *See, e.g.*, RWA/NTCA Proposal at 2.

²⁹ *Public Notice* at 3.

IV. Conclusion

For the foregoing reasons, the Commission should adopt its proposal to license 600 MHz spectrum on an EA basis, and should also adopt AT&T's proposal regarding hierarchical package bidding. However, it would not be arbitrary or capricious for the Commission to choose to license 600 MHz spectrum on a PEA basis, but only if the Commission were also to adopt AT&T's proposal regarding hierarchical package bidding.

Respectfully submitted,

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