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Ex Parte

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Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

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

Dear Ms. Dortch:

The Commission initially proposed to license the 600 MHz and AWS-3 spectrum using Economic Areas (EAs), and we have supported the use of EAs as a reasonable compromise between larger REAGs that would be the most efficient basis for licensing new spectrum and smaller licenses that some other parties have advocated.¹ As we have explained elsewhere, Verizon continues to support the use of EAs rather than smaller license sizes because it is more efficient, will allow the spectrum to be put to use more quickly to benefit customers, and generally will produce more revenues at auction to cover the cost of clearing spectrum and fund the public safety network.

In response to concerns from small and rural carriers that EAs are too large, however, the Wireless Telecommunications Bureau sought comment on an alternative proposal by the Competitive Carriers Association (CCA) for smaller licenses called Partial Economic Areas (PEAs) that could be used if the Commission ultimately decided to use a smaller license size for one or more of the spectrum blocks to be auctioned.² Although Verizon continues to support

¹ *Amendment of the Commission's Rules with Regard to Commercial Operations in the 1695-1710 MHz, 1755-1780 MHz, and 2155-2180 MHz Bands*, GN Docket No. 13-185, Notice of Proposed Rulemaking, 28 FCC Rcd 11479, 11502-03, ¶ 52 (2013) ("AWS-3 NPRM"); *Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions*, Notice of Proposed Rulemaking, 27 FCC Rcd 13257, 12411, ¶ 148 (2012) ("Incentive Auction NPRM").

² *Wireless Telecommunications Bureau Seeks Comment on a Proposal to License the 600 MHz Band Using "Partial Economic Areas"*, GN Docket Nos. 12-268, 13-185, Public Notice, 28 FCC Rcd 17255 (WTB Dec. 11, 2013) ("WTB PEA PN"); see also Letter from Rebecca Murphy Thompson, CCA, to Marlene H. Dortch, Secretary, FCC, GN Docket No. 12-268 (filed Nov. 27, 2013) ("CCA PEA Proposal").

licensing on the basis of EAs, over the last three months we have worked with the rural carrier associations and Commission staff in an attempt to reach a compromise on smaller license sizes that would address the rural carriers' concerns, while also ensuring that the license areas "nest" into EAs and that carriers are able to combine these smaller licenses through package bids.

In early March, Verizon participated in a meeting with the rural carrier associations, the other three nationwide carriers, and Commission staff to discuss the CCA PEAs proposal and an alternative PEA map submitted by NTCA and the Rural Wireless Association (RWA).³ Verizon explained at the meeting that any new license areas should reflect updated geographic and population data, rather than the Metropolitan Statistical Areas (MSAs) included in the current Cellular Market Area (CMA) boundaries used by the Commission. The CMA boundaries are badly outdated, as they were derived from 1980 census data and thus fail to reflect more than thirty years of population growth and shifts.⁴ Instead, we suggested that license area boundaries should reflect current MSAs, which are maintained by the Office of Management and Budget.⁵ We also suggested that no license area should cover a population smaller than the smallest of the current CMAs.

On March 11, NTCA, RWA, the Blooston Rural Carriers, and CCA submitted a revised PEAs proposal.⁶ Although it represents progress toward a compromise by reducing the number of licenses areas to just over 400 (from more than 600), the revised proposal suffers from a number of flaws. First, the PEAs do not reflect current MSAs; more than 80 MSAs have been split into two or more PEAs.⁷ Second, there are no discernable objective criteria underlying the construction of some of the PEAs.⁸ Third, some of the PEAs subdivide current MSAs in unusual ways and are unnecessarily small.⁹

³ See Letter from John Leibovitz, Deputy Chief, Wireless Telecommunications Bureau, to Marlene H. Dortch, Secretary, FCC, GN Docket Nos. 12-268, 13-185 (filed March 4, 2014) ("WTB *Ex Parte*").

⁴ See *Common Carrier Public Mobile Services Information, Cellular MSA/RSA Markets and Counties*, CL Report No. CL-92-40, 7 FCC Rcd 742 (1992).

⁵ See <http://www.whitehouse.gov/sites/default/files/omb/bulletins/2013/b13-01.pdf>.

⁶ See Letter from Sean Spivey, CCA, *et al.*, to Marlene H. Dortch, Secretary, FCC, GN Docket Nos. 12-268, 13-185 (filed March 11, 2014) ("Revised PEAs Proposal").

⁷ For example, the *Revised PEAs Proposal* splits both the Atlanta and Chicago MSAs into four separate PEAs. It divides the Cedar Rapids, Iowa MSA into three PEAs, and the Iowa City MSA into two PEAs. *Id.* at Attachment.

⁸ In the *Revised PEAs Proposal*, for example, Kenosha and Racine, Wisconsin comprise separate PEAs. *Id.* The logic behind this division is unclear; it seems more sensible to include Racine in the Milwaukee PEA, and Kenosha in the Chicago PEA (in fact, Kenosha is in OMB's Chicago MSA). Given the objective to reduce the number of PEAs to the lowest common sense number, it is unclear why these areas are proposed as separate PEAs when their community of interest is clearly aligned with larger metro markets.

⁹ For example, the Jones County, Iowa, PEA # 9, has a population of 21,000 and 577 square miles. *Id.*

To address these deficiencies, Verizon is submitting an alternative PEA proposal, which reflects the following principles:¹⁰

- PEAs should be based upon current (2013) OMB MSA boundaries.
- To reduce the number of license areas, the PEAs are formed by logically combining the 388 OMB MSAs so long as the combined MSAs (1) are geographically contiguous, and (2) do not cross existing EA boundaries (so the PEAs will nest into EAs), resulting in 218 license areas.
- PEAs in rural areas outside the MSAs must be contiguous and must contain no fewer than 15,000 POPs, based on 2012 population data.

Adherence to these principles will ensure a reasonable number of total license areas that nest within EAs¹¹ and geographic boundaries based on objective and verifiable criteria that reflect current population distribution. This proposal also achieves what we understand to be a key objective of the rural carriers – separating rural and urban areas to the greatest extent possible.¹² Indeed, given the expansion of many metropolitan areas and associated population shifts over the last thirty years, PEAs based on current MSAs reflect a much more accurate division of rural and urban areas than do CMAs.

Our efforts to reach a compromise with other carriers on a smaller license size have been premised on our understanding that the use of smaller license sizes would be accompanied by the ability to submit package bids. Accordingly, we have made clear throughout our discussions that Verizon could support the adoption of license areas consistent with the principles outlined above, *provided that* the Commission also enables carriers to combine these smaller licenses through

¹⁰ Attached are (1) four maps, showing Verizon’s proposed combined MSAs in the East, West, Midwest, and South; and (2) an Excel file showing the MSA combinations, their component MSAs, and associated population, square mileage, county, and FIPS code data.

¹¹ The rural carriers, AT&T, and Verizon appear to agree on this point. See *WTB Ex Parte* at 2 (among the principles for development of PEAs, NTCA and RWA identified that “all licenses must nest within EAs; and must have less than 500 total areas due to Incentive Auction complexities”; AT&T supports “nesting” within EAs and “keeping the total number of PEAs as low as possible”); *Revised PEAs Proposal* at 2 (carriers are working to “reduce the number of territories to an amount approaching 400 areas” and “making each ‘building block’ territory nest with an EA”). See also *Incentive Auction NPRM*, 27 FCC Rcd at 12411, ¶ 55 (with respect to CMAs, “having a large number of very small licenses may raise implementation risks for the auction designs contemplated in this proceeding”; “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”); *WTB PEA PN*, 28 FCC Rcd at 17256 (encouraging commenters to address “the importance of using a license scheme that ‘nests’ into EAs”).

¹² See, e.g., *WTB Ex Parte* at 2 (NTCA and RWA support “keep[ing] rural and metropolitan areas separate, as much as possible”; Blooston “argued for the need to keep rural and urban areas separate, as much as possible”); *Revised PEAs Proposal* at 2 (proposed “geographic units would ensure that some licenses consist of large population centers while other PEAs consist of less populous areas”).

package bids. Smaller license sizes, and thus a greater number of licenses, heighten the risk of failing to acquire a sufficient number of licenses to implement a business plan. This risk, known as the “exposure problem,” is significant and may inhibit auction participation and/or result in lower valuations, as bidders must weigh the cost and delay associated with aggregating the necessary spectrum in subsequent secondary market transactions.¹³ The ability to bid on a package of the top 100 MSAs (or approximately 70 percent of the population) mitigates this risk, however, while also addressing the “threshold problem” that smaller carriers may face, because the vast majority of rural areas will fall outside of the top markets and will be available for bidding only on an individual basis. The combination of smaller license areas that separate rural and urban areas and package bidding for the largest markets thus represents a win-win for small and large carriers.

This letter is being filed pursuant to Section 1.1206 of the Commission’s Rules. Should you have any questions, please contact the undersigned.

Sincerely,



Attachments

cc: (via e-mail)

Ruth Milkman
Renee Gregory
Louis Peraertz
Nicholas Degani
Erin McGrath
Roger Sherman
John Leibovitz

¹³ This is not, as some parties suggest, an issue only for larger carriers. A new entrant, or a carrier hoping to enter a new band, will require certain economies of scale in order to deploy.