

House Committee On Energy and Commerce

July 23, 2013 hearing of Subcommittee On Communications and Technology - "Oversight of Incentive Auction Implementation"

Questions For The Record for Preston Padden, Executive Director, Expanding Opportunities For Broadcasters Coalition

Question#1:

You stated that broadcasters interested in relinquishing spectrum have concerns about auction participation restrictions. Please elaborate on potential spectrum sellers' interest in not limiting participation in the forward auction.

Question # 2:

Mr. Padden, do you believe the FCC should use any measurements or valuation to determine winning bids in the reverse auction? What will scoring do to broadcaster participation? Can you elaborate on other effects of "scoring" a bid?

Combined Answer:

The Expanding Opportunities For Broadcasters Coalition ("Coalition") is committed to working constructively with the FCC toward the goal of a successful Incentive Auction. The Coalition has confidence in the FCC's Auction Task Force, and we are very appreciative of the helpful information recently made available to broadcasters including the revised TV Study and the pair-wise station interference data.

The Coalition is concerned about three issues – (1) the lack of information about the prices the FCC intends to offer broadcasters in the reverse auction, (2) the proposal to "score" stations based on population covered or other station characteristic and (3) proposals to restrict auction participation by AT&T and Verizon in the forward auction. The Commission has not yet attracted anything close to the critical mass of willing seller broadcasters that will be required for a successful auction. All three of our concerns impact the level of broadcaster participation.

The key to attracting broadcasters to the auction (and thus having spectrum to auction) is the prospect of substantial payments – payments reflective of wireless, rather than broadcast, spectrum values. The FCC can afford to be generous in the relatively small number of markets where it will need to buy spectrum because it will reap the forward auction revenues from the vast majority of markets essentially

for free, paying only repacking costs. To date the FCC has not given broadcasters any concrete information about the level of payments they can expect and the Commission will not attract sufficient TV station participation until it does so.

The FCC's proposal to "score" stations based on population covered or other station characteristic is perceived by broadcasters as an economist's strategy to limit payments to some stations. This is discouraging, rather than encouraging, broadcaster participation. The FCC Staff has indicated that its interest in scoring is driven by a desire to pay more to those stations most important to clearing spectrum. The good news is that the Staff is working on a feasible and workable auction design that automatically will yield higher payments to those stations most important to clearing. The auction design accomplishes this by freezing at early, high-priced, rounds of the auction those stations most difficult to repack and hence most important to spectrum clearing. Under the auction design, stations easier to repack will descend to later, lower-priced, rounds of the auction. Thus the Staff can accomplish its goal of paying more to the stations most important to clearing without any need for scoring.

The Staff has indicated a desire to run simulations to determine what additional efficiency, if any, might be gained by adding scoring to the basic auction design. While that is a quite reasonable way to proceed, the Coalition urges the Staff, and ultimately the Commissioners, to weigh carefully any perceived increase in auction efficiency against the fact that scoring based on population or other station characteristic almost certainly will deprive the Commission of the critical mass of broadcasters it needs to make the auction a success.

Finally, the Coalition opposes proposals to limit auction participation by AT&T and Verizon. The Commission will need all the revenue it can get to pay exiting broadcasters, pay repacking costs for broadcasters remaining on the air, pay for FirstNet, pay other expenses and contribute to deficit reduction. Restricting AT&T and Verizon will reduce auction revenue. The Coalition understands that T-Mobile and Sprint would like to get spectrum for less than they would have to pay if they are required to bid against AT&T and Verizon. But, their objective is simply inconsistent with the Commission's funding responsibilities under the statute.

By conventional anti-trust standards, the wireless market is at least "workably competitive". And, recent marketplace developments have caused industry analysts to predict significant strengthening of T-Mobile and Sprint's competitive position. See, e.g., Joan Engebretson, *New Sprint, T-Mobile Plans Threaten AT&T, Verizon Dominance*, Telecompetitor (July 12, 2013, 10:55 a.m.), available at http://www.telecompetitor.com/new-sprint-t-mobile-plans-threaten-att-verizon-dominance/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+Telecompetitor+%28Telecompetitor%29.

For all of the reasons above, the Coalition urges the FCC (1) to provide information to broadcasters about the prices it intends to offer in the reverse auction, (2) to not

“score” stations based on population or other station characteristic and (3) to not restrict AT&T and Verizon in the forward auction.