



September 18, 2013

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Ex Parte

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Federal Communications Commission
445 12th Street, SW
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Re: Expanding the Economic and Innovation Opportunities of Spectrum through Incentive Auctions, GN Docket No. 12-268

Verizon submits the attached study by Dr. Leslie Marx, former FCC Chief Economist and expert in auction economics. Dr. Marx demonstrates the lack of empirical evidence to support claims that some carriers are at risk of foreclosure from access to spectrum unless the Commission restricts Verizon's and AT&T's participation in the upcoming Incentive Auction. She further explains that, in any event, Verizon and AT&T lack the incentive and ability to implement a foreclosure strategy. Dr. Marx's analysis also dispels any claims that the FCC could impose significant bidding restrictions without materially reducing auction revenues and risking outright auction failure. To the contrary, her study of previous auctions suggests that restrictions could reduce revenues by as much as 45 percent.

The study, "Economic Analysis of Proposals that Would Restrict Participation in the Incentive Auction," establishes that:

The Economic Evidence Does Not Support a Risk of Foreclosure.

- Claims by some wireless carriers that they are at risk of being foreclosed from access to low-frequency spectrum are inconsistent with those firms' own behavior. These carriers have repeatedly passed on opportunities to acquire that spectrum at auction and on the secondary market.
- An economic analysis of Sprint's and T-Mobile's pricing plans adds to the extensive evidence already in the record showing that neither of those carriers faces a capacity constraint that could render it susceptible to being foreclosed from access to spectrum needed to compete effectively.
- Any attempt by Verizon or AT&T to foreclose rivals would be costly and difficult to implement. For example:

- In a two-sided Incentive Auction, higher bids on the part of buyers result in a greater quantity of spectrum being offered by sellers, thus increasing the costs of foreclosure.
- In a blind (anonymous) bidding auction, it would be very difficult for AT&T and Verizon to know whether they are bidding against foreclosure targets or one another. Indeed, in the 2008 700 MHz auction, head-to-head competition between AT&T and Verizon contributed more than \$4.2 billion in auction revenues, undermining any suggestion that the carriers pursued a foreclosure strategy.
- Verizon and AT&T would each have an incentive to “free ride” on the other’s willingness to pay supra-competitive prices for spectrum to foreclose other carriers, reducing any theoretical gains from foreclosure.

Bidding Restrictions Would Depress Revenues and Risk Auction Failure.

- Simulations of past auctions using actual bids show that, without Verizon and AT&T, revenue in the 2008 700 MHz auction would have been 45 percent lower and revenue in the 2006 AWS auction would have been 16 percent lower.
 - These findings are consistent with data from a range of auction settings, including Department of Interior auctions for off-shore oil leases and Forest Service timber auctions, showing that more bidders lead to higher winning bids.
- Analysis of restrictions short of outright exclusion, such as caps on aggregation of spectrum below 1 GHz, demonstrates that any measure that materially reduces the demand that AT&T and Verizon bring to the Incentive Auction risks a substantial reduction in auction revenue.
- Simulation of a two-sided auction shows that the risks created by imposing bidding restrictions are greater than in a traditional auction. Indeed, the model shows that bidding restrictions in a two-sided auction reduce both the maximum possible revenue and the maximum possible quantity of repurposed spectrum that can be achieved, thus jeopardizing both goals of the incentive auction legislation.
- Some parties hypothesize that bidding restrictions could increase revenue by encouraging small firms to participate in the auction, but that conjecture lacks any factual basis and is undermined by the historical fact that smaller firms routinely compete successfully at auction despite the unrestricted presence of larger bidders.
- T-Mobile’s proposal to ease bidding restrictions if the auction does not achieve a revenue target not only fails to avoid the revenue-suppressing effects of those restrictions, but would actually exacerbate them. In fact, the added complexity and incentives for strategic bidding associated with that proposal would heighten the risk of outright auction failure.

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The record in this proceeding is filled with speculative claims that the FCC can impose restrictions on AT&T and Verizon without reducing auction revenues. In contrast, the conclusions presented in the attached study are based on empirical evidence and state-of-the-art economic analysis. Not only does the study make clear that arguments for bidding restrictions fail to address any real world problems (other than their proponents' desire to acquire spectrum at a discount), it lays to rest the counter-intuitive notion that the Commission could restrict participation by the two largest wireless carriers without adversely and materially affecting auction revenues. Instead, the study confirms the common-sense expectation that limiting participation by carriers that place a high value on spectrum will reduce auction revenues and increase the risk that the auction will fail altogether. Rather than compromising the revenue and spectrum re-allocation goals central to the Incentive Auction, the Commission should adopt policies that encourage the broadest possible participation by broadcasters and wireless carriers alike.

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,

A handwritten signature in black ink, appearing to read "Jonathan L. Speer". The signature is written in a cursive, flowing style.

Attachment