



Insight

Bidding Restrictions and The Incentive Auctions

DOUGLAS HOLTZ-EAKIN | MAY 1, 2013

The following is a summary to a paper co-authored by Coleman Bazelon and I. You can read the complete paper [online here](#).

The upcoming Federal Communications Commission (FCC) incentive auction is the most important reallocation of radio spectrum of this decade. There are two primary objectives: (1) reallocate additional spectrum toward mobile broadband uses, and (2) provide the resources to fund First Responder Network (FirstNet). To meet these goals, the FCC will take bids in a procurement auction from television broadcasters willing to give up their over-the-air broadcasting licenses, and then sell the reclaimed spectrum in a forward auction to wireless broadband service providers.

We found that rules that would restrict the participation of the two largest wireless carriers, as some propose, could undermine these goals, potentially reducing auction proceeds by some 40 percent and putting FirstNet funding at risk. The amount of spectrum ultimately transferred to wireless service also could be reduced.

With the increasing reliance on wireless communication, the providers need additional spectrum.¹ These frequencies are a key part of the FCC's National Broadband Plan effort to allocate an additional 500 MHz of radio spectrum to wireless broadband in order to meet the nation's growing communications needs.² Although the amount of spectrum to be reallocated will be determined by the auction—the higher the bids in the forward auction, the more money available to fund public safety needs and to buy out broadcasters in the procurement auction—a well-designed auction could reallocate as much as 120 MHz of prime spectrum.³ Consequently, this auction could be the largest FCC auction ever, with enormous implications for the U.S. wireless marketplace.

The FCC's upcoming incentive auction is a two-sided auction where both the sellers and buyers will be bidders. This is in contrast to previous FCC auctions where the FCC was simply selling spectrum license rights that they made available outside of the auction process. The FCC has recently begun the process of determining the mechanics of this auction, but has not yet decided on the rules. Broadly, the FCC will take bids from television broadcasters to relinquish their broadcasting licenses which, along with repacking or moving the remaining broadcasters, will free up spectrum that can be sold in the forward auction. In general, the forward auction of broadband spectrum licenses will be similar to past FCC spectrum license auctions. One caveat is that the reserve prices—the total amount bidders must bid for the auction to be valid—are to be determined by the bids from broadcasters in the procurement auction (plus other expenses, including the costs of repacking the remaining broadcasters and, crucially for public safety, roughly \$7 billion to fully fund FirstNet.⁴ The higher the bids in the forward auction, the more revenues available to pay broadcasters to relinquish their licenses and, as a consequence, the more spectrum will be reallocated.

AT&T and Verizon are the two largest wireless carriers, with about two-thirds of all cell phone subscribers between them. Based on their large market share, some have raised the prospect that these two carriers should be restricted in their auction bids. Specifically, at the urging of industry participants such as the Rural Cellular Association, Rural Telecommunications Group, Leap Wireless, Free Press, and Public Knowledge, the FCC has opened a proceeding to investigate the possibility of limiting the amount of spectrum a single carrier can

control.⁵ Although similar proposals have been put forth in conjunction with other proposed auctions, the auctions were generally for smaller bands of spectrum, rendering the scale of the impacts of removing AT&T and Verizon from the bidding pool far less easy to offset.⁶ As a result of that proceeding or directly as a part of the rules for the upcoming incentive auction, the FCC may consider limiting participation of AT&T and Verizon in the upcoming incentive auction.⁷ This paper analyzes the impacts of such a prohibition on auction receipts.