EXPANDING OPPORTUNITIES FOR BROADCASTERS COALITION

July 4, 2015

VIA ELECTRONIC FILING

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

Re: Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions, GN Docket No. 12-268;
Broadcast Incentive Auction Comment Public Notice Auction 1000, 1001 and 1002, AU Docket No. 14-252;
Office of Engineering and Technology Releases Final Version of *TVStudy* and Releases Baseline Coverage Area and Population Served Information Related to Incentive Auction Repacking,
ET Docket No. 13-26

Dear Ms. Dortch:

The Expanding Opportunities for Broadcasters Coalition (the "Coalition") hereby submits these Comments in response to the Commission's *TV Study Public Notice*[1] as well as Informal Comments pursuant to Section 1.1206 of the Commission's rules.[2]

The forthcoming adoption of the *Auction Procedures Public Notice* will mark a significant milestone in the march toward an Incentive Auction in

[1] *Office of Engineering and Technology Releases Final Version of TVStudy and Releases Baseline Coverage Area and Population Served Information Related to Incentive Auction Repacking*, Public Notice, ET Docket No. 13-26, DA 15-768 (rel. June 30, 2015).

[2] Pursuant to the Public Notice issued on December 18, 2012 (DA 12-2040), these comments represent the views of a coalition of broadcasters who own or have financial interests in more than 85 auction-eligible stations and who desire to remain anonymous at this time. Together, the Coalition members own both full power and Class A television stations in a number of markets, including stations in eight of the ten largest DMAs. The Coalition's name and mailing address are provided in accordance with Section 1.419 of the Commission's rules. See 47 C.F.R. § 1.419(d).

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early 2016—a feat that many observers have only recently deemed impossible. On the eve of this momentous occasion, we believe that there are three important, but relatively minor, changes that the FCC must make to its auction procedures to achieve the full potential of the Incentive Auction: (1) the Commission must account for a market anomaly that, if left unchanged, will slash $8.3 billion from broadcaster opening prices nationwide; (2) the Commission should reduce its price decrements in each round to provide the opportunity for price discovery that the agency has recognized is so important in this context; and (3) the Commission should adjust its reverse auction pricing formula to more accurately account for each station's interference potential.

Preventing a Potential $8.3 Billion Drop in Broadcast Prices

One of the more peculiar results of the pricing formula proposed by the Commission in the *Auction Comment Public Notice* is that a change to the facilities of a single station can affect the prices of every other station in the country. In particular, the FCC's approach identifies a single, price setting station (the station with the largest volume, as calculated using the agency's formula), and then applies a multiplier to adjust that station's volume to one million. Once the Commission measures the scaling constant for the price setting station, it applies that same scaling constant to every other station. This scaled volume is then multiplied by the clock price to determine a station's price offer. Thus, any change to the volume of the price setting station results in a change to the scaling constant, and therefore the prices offered to every station in America.

Under the FCC's proposal, the station with the largest volume is WABC-TV in New York. This, itself, is somewhat bizarre, in that WABC-TV ("WABC") is a VHF station, and therefore cannot actually receive the $900

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million opening bid price touted in the *Auction Comment Public Notice*.[3] The baseline population data released June 2, 2014 assumed that WABC is operating from its current facility atop Empire State Building, resulting in an interference-free population count of 21.2 million.[4] The new baseline population data released on June 30, 2015, however, credits WABC for its permitted facility at One World Trade Center.[5] As a result, WABC's interference-free population count increases by 4.8% to 22.2 million. Because the Commission has committed to keeping WABC's maximum price the same, however, the agency will have to reduce the multiplier to produce the same scaled volume of one million. As a result, the multiplier (and therefore the price) for every other television station in the country will fall.

If the FCC does not intervene, we estimate that reverse auction opening prices will fall by at least $8.3 billion nationwide, or approximately 2.3% for every auction-eligible station.

Fortunately, we believe that there are several easy solutions to this problem. **The most sensible solution, as explained in the attached paper by auction economist Peter Cramton, is to set the multiplier based on the highest volume UHF station.** This is consistent with the Commission's goal of setting the maximum price at $900 million and would neutralize the effect of changes to WABC's facility. Alternatively, the Commission could either: (1) increase the base clock price from the proposed $900; or (2) freeze the multiplier at the amount that it would have been when the Commission adopted the *Auction Comment Public Notice*.

We understand that the FCC Staff is considering how to solve this issue, and we appreciate their concern. Any of the above solutions would produce results more consistent with the Commission's intention when it adopted the

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[3] *See In the Matter of Broadcast Incentive Auction Comment Public Notice Auction 1000, 1001 and 1002; Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions*, AU Docket No. 14-252 & GN Docket No. 12-268, FCC 14-191 ¶ 97 (rel. Dec. 17, 2014) ("*Auction Comment Public Notice*") ("Based on our work to date on the design of the incentive auction, we expect that a base predicated on an opening bid price of $900 million for the station with the highest volume will achieve robust participation by stations across multiple markets.").

[4] http://data.fcc.gov/download/incentive-auctions/Constraint_Files/TVStudy_Parameters_2014May20.zip.

[5] https://apps.fcc.gov/edocs_public/attachmatch/DA-15-768A3.pdf.

Auction Comment Public Notice and the understanding of interested parties that have participated in this proceeding.

Reducing Price Decrements

There is no reason to drop reverse auction prices as rapidly as the FCC Staff has proposed. In the *Incentive Auction Report and Order*, the Commission stated that, "Observing the sequence of prices over multiple rounds will give bidders an indication of relative values for the different bid options, which will help them refine and feel more confident in their bidding decisions. This process of price discovery will be particularly helpful in the context of this first-time-ever incentive auction, in which there will be no historical results to guide bidder expectations."[6]

Dropping prices by 5% each round will destroy this opportunity for price discovery, given that we expect between 45-60% of the economic activity in the auction to occur in the first third of the auction—which would take just eight rounds under the Staff's proposal. In fact, using the proposed price decrements, we expect that the bidding in several key markets could essentially be over by the third round. To provide the promised opportunities for price discovery, the Commission should adopt a fixed decrement of 1% of starting prices, which will limit the auction to no more than 100 rounds.

Fixing the Volume Metric

In the *Incentive Auction Report and Order*, the Commission committed to adopting a price formula that would:

> take[] into account objective factors, such as location and potential for interference with other stations, that affect the availability of channels in the repacking process and, therefore, the value of a station's bid to voluntarily relinquish spectrum

[6] *Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions*, Report and Order, 29 FCC Rcd. 6567 ¶ 449 (2014).

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> usage rights. Thus, a station with a high potential for interference will be offered a price that is higher than a station with less potential for interference to other stations.[7]

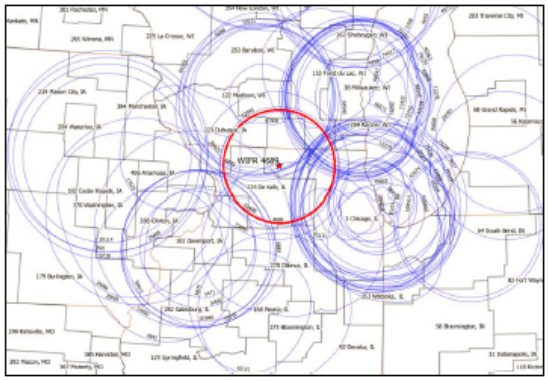
Yet, as we repeatedly have explained, the formula proposed by the FCC does not achieve this result.

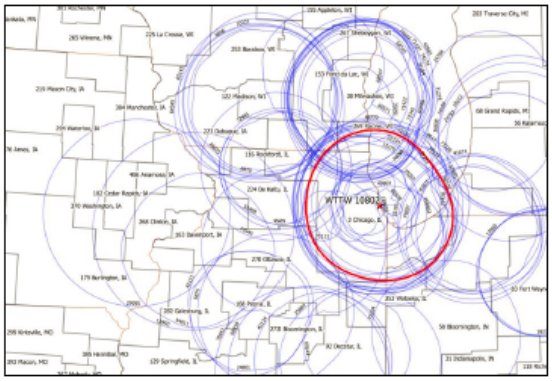
The example below shows two stations—one in Rockford, Illinois and one in Chicago. By any measure, the Rockford station has "a higher potential for interference . . . to other stations." Nevertheless, the Commission's proposed formula would offer the Rockford station just 34% of the price offered to the Chicago station. This is because the FCC's formula places a substantial emphasis on the interference-free population served by each station (e.g., the number of persons who can receive the station's signal over-the-air).

WIFR (FacID 4689) **88% Freeze***
Covered Pops: 1.1 million
Interference Count: 118
Blocked Pops: 14.1 million
FCC Starting Price: $173 million ($2.04/MHzPOP)
EOBC Proposal: $355 million ($4.20/MHzPOP)

WTTW (FacID 10802) **12% Freeze***
Covered Pops: 9.7 million
Interference Count: 116
Blocked Pops: 13.3 million
FCC Starting Price: $507 million ($6.35/MHzPOP)
EOBC Proposal: $604 million ($7.57/MHzPOP)

EOBC Compromise Proposal reduces but does not eliminate pricing discrepancy





[7] *Id.* ¶ 450.

The only justification that the FCC has offered for placing such a substantial emphasis on broadcast population is that it purportedly enables the Commission "to clear more spectrum in markets where the forward auction value of relinquished spectrum usage rights is apt to be higher."[8] This is economic jiggery-pokery. As Professor Cramton explains, shifting the emphasis to a station's interference count "results in stronger incentives for stations blocking big markets, including the main stations with large population coverage in the major markets." It also has the advantage of producing a more robust auction that is more likely to achieve a higher clearing target.

At the very least, the Commission must address prices in the three markets where the starting prices under the FCC's formula are ***below***—in some cases substantially below—the "economic potential" of the auction that the agency touted in its Greenhill I book.

Respectfully Yours,

/s/ Preston Padden /s/

Preston Padden
Executive Director
Expanding Opportunities for Broadcasters Coalition

[8] *Auction Comment Public Notice* ¶ 98.