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Putting Auctions Into Reverse

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The FCC is seeking comment on a proposal to use reverse auctions to determine the recipients and amounts of support for carriers providing service to high-cost areas. This proposal, championed by FCC Chairman Kevin Martin, would award support to the carrier that commits to provide service in a geographic area at the lowest cost. The FCC tentatively concluded that reverse auctions have advantages over current high-cost support distribution mechanisms and is now seeking comment on this notion and how to implement it. These are the key points on which comment is being sought:

Eligibility Requirements. The FCC tentatively concluded that a bidder in a reverse auction must hold an eligible telecommunications carrier (ETC) designation covering the relevant geographic area in order to participate in an auction for that geographic area. You would think this would be an uncontroversial component of the plan, but the fact is, the FCC has been taking years to act on uncontested petitions to be designated as an ETC. The FCC will either have to speed up the ETC designation process or make it an automatic part of the reverse auction process.

Single Winner Versus Multiple Winners. Should universal service support go to a single auction winner or to multiple winners and should only the carrier submitting the lowest bid be allowed to receive the subsidy? The FCC recognized that awarding support to a single entity would result in less overall support than to multiple entities. However, it also acknowledged that a single-winner auction might eliminate the consumer benefits of a competitive market by discouraging competitive entry or affecting the accessibility of both wireline and wireless services. The FCC notice seemed strangely unconcerned that a “single-winner” auction would eliminate the historic subsidy to incumbent LECs, an eventuality that would almost certainly cause mass panic in the LEC community.

Method of Distributing the Subsidy. How should subsidies be handed out? Subsidies could be offered as a fixed payment for each geographic area, on the basis of the number of subscribers or households served, or on some combination of these

methods. The answer to this issue might affect where and how quickly recipient carriers build out their systems.

Geographic Areas. In most areas of the country, telecommunications services are provided by a wireline incumbent LEC and possibly by one or more competitive ETCs, most of which are wireless carriers. Basing the geographic areas on any carrier's service areas would likely give that carrier an advantage in bidding because competing carriers are unlikely to have the same service footprint. Should an incumbent LEC's study area, its wire centers, or some other geographic division be used for the auction?

Universal Service Obligations. What should be the obligations born by ETCs? Historically, there were "carriers of last resort" who received universal service support and were obligated to serve customers subject to rates and terms specified by state regulatory authorities. How would universal services be ensured under a reverse auction mechanism? Also, should the winner of an auction be allowed to transfer its universal service obligations. What should be the ramifications for an auction winner who does not fulfill its universal service obligations? Should the current requirements for a designated ETC be maintained or should more or less requirements be imposed on ETC's winning universal service auctions?

What build-out commitment should apply to ETCs winning universal service auctions? Currently the FCC requires that ETCs must provide service to all customers who make a reasonable request for service and if the request comes from a customer located within the applicant's licensed service area but outside its existing network coverage, the ETC should provide service within a reasonable period of time if the service can be provided by certain build-out options. A competitive ETC applicant must submit a five-year plan describing its build-out plan for upgrades to its network within its designated service area. Should applicants and/or winners of auctions also be required to submit such plans?

Should an applicant and/or winner be required to provide a demonstration that it offers a local usage plan comparable to the incumbent LEC or some other local usage threshold? Should retail rates for the local usage plan be regulated?

Should all ETCs participating in and/or winning universal service auctions be required to demonstrate their ability to remain functional in emergencies?

Should all wireless ETCs participating in and/or winning universal service auctions be required to comply with CTIA's Consumer Code for Wireless

Service? Are there other consumer protection and service quality standards that should apply to auction participants and/or winners?

Should ETCs participating in auctions be required to demonstrate that they have the financial resources and ability to provide quality services throughout the area to be auctioned?

Should broadband Internet access services with particular transfer rates be required? Should services be required to be offered at a particular price?

Reserve Prices. The FCC feels that it is important to establish a reserve “price,” *i.e.*, a maximum subsidy level that auction participants would be allowed to place as a bid. How should these reserve prices be set? Should they be based on the current levels of support for the geographic area?

Auction Design. The FCC generally invited comment on the differences between auctions for spectrum and reverse auctions for subsidies. Is the current design of spectrum auctions appropriate for the reverse auction? Should the auctions be conducted every five years or less? Should a pilot program be adopted to test the use of reverse auctions? CTIA, Verizon and Alltel have all proposed plans and the FCC requests comment on these proposals.

Interested parties may file comments 30 days after publication of the Notice in the Federal Register and reply comments 60 days after publication of the Notice in the Federal Register. As of this writing, the Notice has not yet been published in the Federal Register.