

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)
)
Experimental Design for Examining) DA No. 05-1267
Performance Properties of Simultaneous)
Multiple Round Spectrum License Auctions)
With and Without Combinatorial Bidding)

**REPLY COMMENTS
OF THE RURAL TELECOMMUNICATIONS GROUP, INC.**

The Rural Telecommunications Group, Inc. (RTG), by its attorneys, hereby replies to comments filed in the above-captioned proceeding.¹ RTG has deep misgivings about the use of combinatorial or “package” bidding and opposes the use of combinatorial bidding in most future auctions. Specifically, RTG is troubled that the combinatorial bidding auction methodology is biased against small bidders and that the proposed experiment may not adequately consider the negative impact of the use of such bidding methodology on small and rural bidders, and that even if “successful,” the experiment will not reflect the harmful impact of utilizing combinatorial bidding in a complicated, real-world auction with multiple licenses.

I. Background

RTG is made up of small, rural commercial mobile radio service (CMRS) providers, many of whom have been successful in past spectrum auctions. RTG is a Section 501(c)(6) trade association dedicated to promoting wireless opportunities for

¹ *Comment Sought on Experimental Design for Examining Performance Properties of Simultaneous Multiple Round Spectrum License Auctions With and Without Combinatorial Bidding*, Public Notice, DA 05-1267 (May 2, 2005).

rural telecommunications companies through advocacy and education in a manner that best represents the interests of its membership. RTG's members have joined together to speed delivery of new, efficient, and innovative telecommunications technologies to the populations of remote and underserved sections of the country.

RTG's members are small businesses serving or seeking to serve secondary, tertiary and rural markets. RTG's members are comprised of both independent wireless carriers and wireless carriers that are affiliated with rural telephone companies.

Regarding auction participation, RTG members do not have the same resources as the large, nationwide and super-regional CMRS carriers. When RTG members have been successful in FCC spectrum auctions, it has been because the Commission has chosen to use small geographic license areas such as Metropolitan Statistical Areas (MSAs) and Rural Service Areas (RSAs).

II. Combinatorial Bidding Will Have Adverse Consequences Which May Not Be Adequately Reflected in Any Experiment and Which Are Inconsistent with the Act

RTG agrees with Telephone and Data Systems, Inc.'s (TDS) analysis of the proposed combinatorial bidding auction methodology's "adverse consequences for small bidders."² The use of package bidding may discourage or preclude auction participation by small and rural bidders because of the "threshold" problem and increased auction complexity and expense.³ The "threshold" problem is most acute for RTG members and other small bidders when going up against bidders seeking large "packages" of spectrum. As Leap Wireless International, Inc. (Leap) points out, small bidders seeking an individual license have little chance of reaching an auction's "threshold" when a large

² TDS Comments at 2.

³ *See id.*

bidder has entered a package bid on a group of licenses that includes the individual license sought after by a smaller bidder.⁴ Even though the smaller bidder may actually value an individual license more than the larger bidder, the larger bidder's "package" will net more gross revenue and will thus be preferred over an aggregation of individual bids. Such a result does not reward the carrier that actually values a particular license the most, it simply rewards the carrier that is able to afford the largest license package.

In addition to the threshold problem, the commenters highlight other negative aspects of combinatorial bidding that the FCC must consider. RTG is concerned that a combinatorial bid auction "could take as much as three times the number of rounds as a simultaneous multiple round (SMR) bid auction."⁵ Leap also points out in its comments its concerns about the potential duration of combinatorial auctions.⁶ With combinatorial auctions predicted to last three times as long as previous auctions, RTG is concerned that its members and other small entities will not have the administrative or financial resources to participate in a lengthy auctions. Further, the complexity of combinatorial bid auctions⁷ will add to the expense of participating in an auction. With innumerable combinations and packages mathematically possible, it will take considerable time and resources for an entity to track and analyze the daily auction results. While nationwide companies bidding for large swathes of spectrum can justify such costs, small companies will be overwhelmed by the prospect of hiring auction consultants and analyzing auction data for hours and hours every day during a long, exhausting auction process.

⁴ See Leap Comments at 5 and 6.

⁵ Verizon Wireless Comments at 3.

⁶ See Leap Comments at 9.

⁷ See TDS Comments at 2.

In general, RTG opposes the licensing of new services in nationwide and super-regional licenses and supports the use of MSAs and RSAs, which de-link urban and rural areas. To date, small geographic license areas have aided rural CMRS carriers in the acquisition of spectrum and the provision of services to rural areas consistent with Section 309(j) of the Communications Act of 1934, as amended, (the Act). The use of the combinatorial bid methodology with MSAs and RSAs, however, may make participation by small and rural bidders impossible if such an auction is overly complex and expensive. If the FCC tries to reduce the complexity of a combinatorial bid auction by decreasing the number of licenses by increasing the geographical size of the licenses, thus reducing the number of “package” permutations, it will create license areas that are both too large for small, rural carriers to serve, and too expensive for small carriers to acquire. RTG does not want to see the Commission adopt a combinatorial bidding methodology that by default precludes licensing new services on the basis of MSAs and RSAs.

Finally, RTG echoes TDS’s reminder to the Commission that there is a congressional mandate to disseminate licenses to small and rural bidders.⁸ RTG also reminds the Commission that Section 309(j) of the Act emphasizes the deployment of new technologies in rural areas.⁹ Further, Congress has made it clear that auction policy should not be based “solely or predominantly”¹⁰ on maximizing federal revenues.¹¹ Like Leap, RTG has a continuing interest in ensuring that smaller wireless carriers are able to

⁸ See TDS Comments at 4.

⁹ See 47 U.S.C. §§ 309(j)(3)(A) and (D).

¹⁰ TDS Comments at 5.

¹¹ 47 U.S.C. § 309(j)(7)(A).

meaningfully participate in the Commission's spectrum auction process.¹² RTG fears that the current combinatorial bidding methodology, with its significant threshold flaws, is predominantly focused on maximizing revenue. Focusing on maximizing revenue will favor large bidders able to package their bids, much to the detriment of small, rural bidders and the rural areas they seek to serve.

III. Conclusion

RTG encourages the Commission to take into account rural concerns as it continues to experiment with combinatorial bidding. The inherent flaws in the methodology with regards to smaller bidders that were exposed in the comment round must be addressed. The Commission also must be mindful that any experiment may not adequately assess the negative impact of combinatorial bidding on rural areas.

Respectfully submitted,

**RURAL TELECOMMUNICATIONS
GROUP, INC.**

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Dated: June 15, 2005

¹² See Leap Comments at 1 and 2.

CERTIFICATE OF SERVICE

I, Linda L. Braboy, with the law firm of Bennet & Bennet, PLLC, hereby certify that on this 15th day of June, 2005, a copy of the foregoing Reply Comments of the Rural Telecommunications Group, Inc. was served by First Class, U.S. Mail, postage pre-paid, to the following:

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