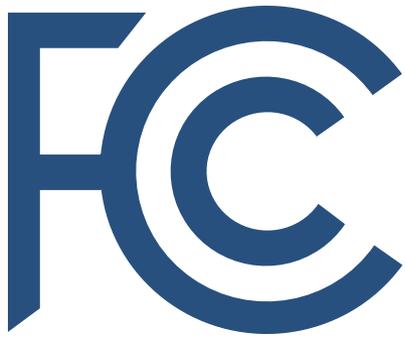


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Reverse Auction

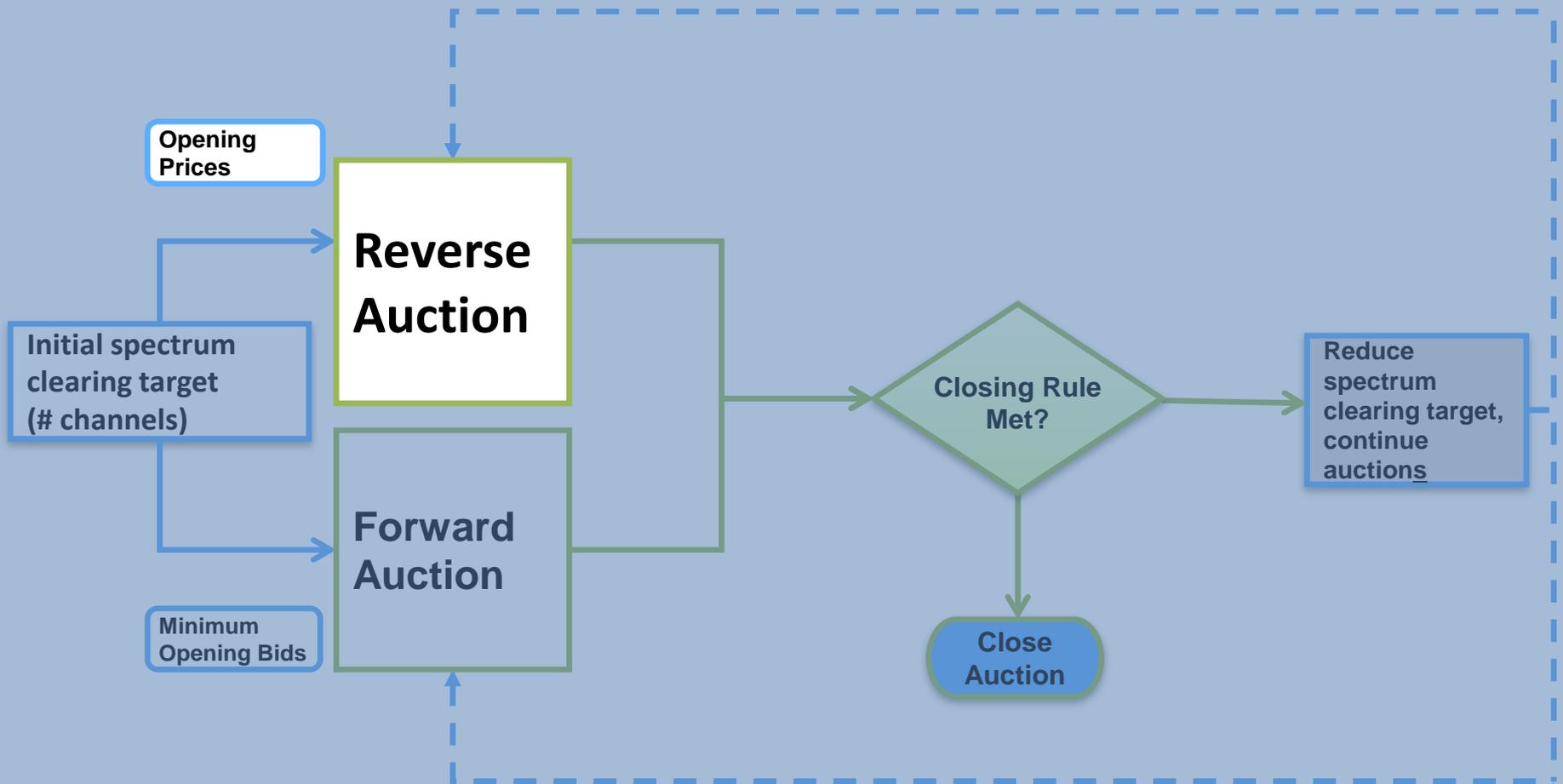
January 20, 2015

Ex Parte Information

- With a limited exception, attending and/or participating in this webinar on proposed procedures to conduct the broadcast incentive auction made by the Commission in the recent *Comment Public Notice*¹ will not require a filing under the Commission's rules governing *ex parte* communications.²
- Presentations to Commission personnel directed to the merits or the outcome of the matters raised in the Comment Public Notice or other pending proceedings will require the filing of an *ex parte* notice.³

¹ *Comment Sought on Competitive Bidding Procedures for Broadcast Incentive Auction 1000, Including Auctions 1001 and 1002*, GN Docket No. 12-268, Public Notice, FCC 14-191 (rel. Dec. 17, 2014). ² See 47 C.F.R. § 1.1200 *et seq.* ³ See *Media Bureau Issues Limited Modification To Ex Parte Requirements For Broadcasters Filing Notices In The Expanding The Economic And Innovation Opportunities Of Spectrum Through Incentive Auctions Proceeding*, GN Docket No. 12-268, Public Notice, 29 FCC Rcd 2002 (2014). If a broadcaster attends a meeting without counsel or is otherwise unable to make a filing without disclosing its identity, Commission staff will file the *ex parte* notice in order to preserve the broadcaster's anonymity.

Introduction



Agenda

1. Before the bidding rounds
 - a) Announce opening price offers
 - b) Collect applications and initial commitments for relinquishment
 2. Bidding in the reverse auction
 - a) Reverse clock basics
 - b) Descending prices and dynamic reserve prices
 - c) Single option bidding and multiple option bidding
 - d) Stopping
- The next webinar (Friday 1/23) will cover:
 - Integrating multiple stages (if a clearing target cannot be met);
 - Determining a clearing target;
 - What happens after the bidding concludes (including channel assignments).

Opening Price Offers

- Opening price offers are starting prices for the reverse auction
 - These are the highest prices offered to stations for the three options to relinquish spectrum usage rights:
 - Go off the air
 - Move to a Low-VHF channel
 - Move to a High-VHF channel
- Propose price offers be calculated systematically on a station-specific basis, based on a “volume” factor and a uniform price for a UHF station going off the air (the “base clock price”).
 - The proposed volume is calculated as the product of “interference” and “population” of a station.
- Release price offers no later than 60 days before the close of the application-filing window so stations can decide if they want to apply to participate.

Initial Commitments

The Comment PN proposes that applicants make a *commitment* to an initial relinquishment option for each of their participating stations

- The commitment is a two-step process:
 1. An applicant first identifies on its application which options it wishes to see offers for during the bidding.
 - Go off the air
 - Move to Low-VHF (available only to UHF and High-VHF stations)
 - Move to High-VHF (available only to UHF stations)
 2. Once its application is accepted, the applicant makes an initial commitment to its preferred option for the opening of the auction.

Selecting Relinquishment Options

- If an applicant does not select a particular option on its application, it will not see price offers and will never be able to bid on that option in the auction.
- The options are arranged in a hierarchy based on the usage rights relinquished.
 - Bidders can only move from greater to lesser relinquishment during the course of bidding.
 - Therefore, bidders should make an initial commitment to the greatest relinquishment option they would like to bid on during the auction.

Initial Commitment Example

If a UHF station applicant selects on its application:

I want to see price offers for the following relinquishment options while bidding:

- Go off the air
- Move to Low-VHF
- Move to High-VHF

It would see the following options during initial commitment:

At the opening price offers, I prefer and am willing to commit to:

- Go off the air for \$100
- Move to Low-VHF for \$70
- Move to High-VHF for \$40

Basics of the Reverse Clock

- Bidders are assigned to an initial relinquishment option based on their commitment during the application phase.
 - Structure of the bidding rounds:
 - Each bidder is offered a price for their option(s)
 - Bids are collected: The bidder chooses to accept or reject an offer
 - Accepting the offer means it is willing to relinquish the usage rights associated with its currently assigned option for the price offered
 - Rejecting the offer means it drops out of bidding and will be assigned a channel in its pre-auction band
 - Bids are processed
 - New price offers are announced
- 

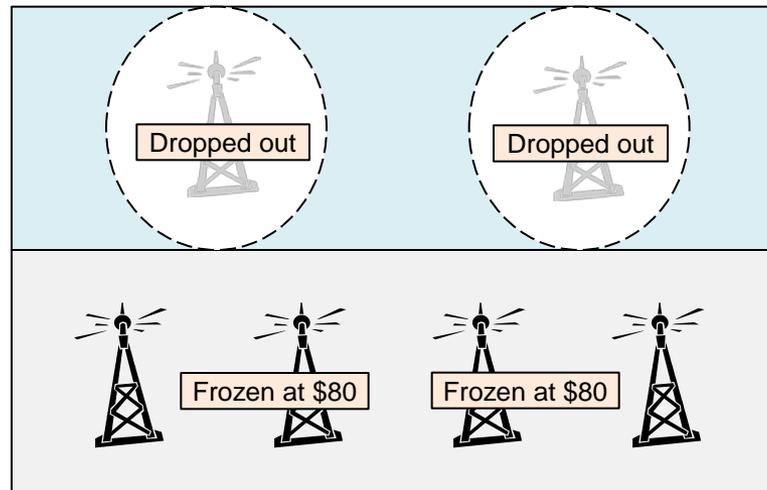
Processing and Pricing

- The auction system must consider the whole universe of stations, bands, and channels when processing and setting prices.
- When a bidder's bid to reject an offer is processed and its station drops out:
 - The station is added to the group of stations that must be assigned a channel in their pre-auction bands; and
 - The system runs a “feasibility check” for every other participating station individually to see if it still can be assigned a channel in its pre-auction band.
- A station can be “frozen” as a result of this feasibility check:
 - If the station can be feasibly assigned a channel, it remains in the auction
 - If it still remains in the auction at the end of processing in that round, the system will reduce its price offer(s) for the following round.
 - If the station cannot be assigned a channel, its price(s) “freeze” at this point
 - The station's relinquishment bid has been provisionally accepted.

Simple Example of Freezing

- Consider a simple example where there are two feasible channels remaining in UHF and four UHF stations bidding to go off the air.

Remain in UHF



Go off the air

\$\$\$00

Round 3

Dynamic Reserve Prices

- “DRP” is an exception to the price reduction rule that applies to UHF stations and is limited to the beginning of the first stage.
 - Until a condition is satisfied to turn it off, UHF stations cannot become “frozen”
 - We propose to relate this “off switch” to potential impairment
 - As a result, while DRP is enabled at the beginning of Stage 1, all prices for UHF stations will decrease whether or not a station is able to be assigned a channel in the broadcast portion of the UHF band.
- “DRP” was proposed in order to allow the FCC to set high opening prices to every broadcaster to facilitate price competition
 - The purpose of DRP is facilitate price competition in all markets, enabling the FCC to offer high opening prices to every broadcaster, and letting the auction process determine the final prices. High opening prices will encourage participation.

Bidding Proposal: Single Option

- Single option: a bidder that is interested in only one relinquishment option will be asked to make a simple choice.
 - The bidder will just see a single price offer and be asked to accept or reject it in every round.
 - If the bidder rejects the price offer, it will drop out of the bidding and be assigned a channel in its pre-auction band.

At the current price offer, I prefer to:

- Go off the air for \$90
- Drop out of the bidding

Bidding Proposal: Multiple Options

- Multiple options: a bidder that is interested in considering multiple relinquishment options will be asked to select its preferred choice.
 - Like with a single option, the bidder will see a price offer for its current relinquishment option,
 - But the bidder will also be able to evaluate offers for other relinquishment options and request to switch to options “lower” in the hierarchy.

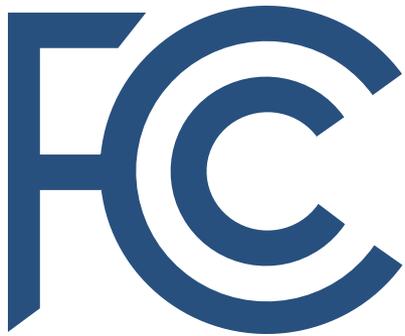
At the current price offers, I prefer to:

- Go off the air for \$90
- Move to Low-VHF for \$65
- Move to High-VHF for \$35
- Drop out of the bidding

When Bidding Ends in a Stage

- Bidding rounds will continue until every reverse auction bidder has either:
 - Dropped out of the bidding to be assigned a channel in its pre-auction band; or
 - Had a relinquishment option provisionally accepted (and its price was “frozen”).

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Questions?

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Contacts

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