

Remarks by Bill Lake
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To the National Alliance of State Broadcaster Associations

**“The FCC’s Incentive Auction Proposal:
New Options for Broadcasters”**

February 28, 2011

I’d like to thank Dick Zaragoza and Susan Wrons for giving me the chance to be with you today. I look forward to speaking with many of you individually, today or in the weeks to come. It’s important for those of us inside the beltway to hear from you who are out serving your communities across the country. And I welcome the chance to talk with you about the Commission’s incentive auction proposal and what we think it means for TV broadcasting.

I suspect that everyone in the TV business has heard of our proposal; but there are almost as many different impressions of what it means as there are people who’ve heard of it. I’d like to try to dispel some of those misimpressions today. As I hope to persuade you, the proposal is not a threat to over-the-air television, but an array of new options that may be attractive to some

broadcasters. Incentive auctions won't work for *us* unless we make them work for *you*, so we very much want to collaborate with you to get the plan right.

I'd like to make five points briefly today, and then to hear and answer your questions.

1. First, the need for more spectrum for wireless broadband is real, and it isn't going away.
2. Second, virtually all the spectrum that can best meet this need is now occupied, so we need a way to enlist the marketplace to determine what spectrum can be put to a different use.
3. Third, this Commission is committed to promoting a healthy broadcasting industry, and we think incentive auctions can actually strengthen it.
4. Fourth, we know that uncertainty is always unsettling, so we want to put flesh on the bones of our proposal, to calm what we think are unfounded fears about what the proposal entails.
5. Fifth, and most important, we ask you to keep an open mind about the proposal, and to work with us to make it something we can all support.

To start with the need: I won't belabor the point, because from the Chairman on down we have made it emphatically. Mobile broadband use is growing far faster than the spectrum available for it, and we have no choice but to act now to identify more spectrum that can be made available to support that growth. Our ability to meet this challenge will have great impact for American competitiveness and for the many facets of our economy and our lives that depend increasingly on broadband connections.

We've heard it said, how can the wireless industry need more spectrum when they aren't using the 700 MHz spectrum they bought in 2008? We think that's based on a misimpression. The 700MHz spectrum is being built out. The Commission set deadlines for its build-out, and there are indications that the carriers will actually exceed their milestones. Verizon, for example, has rolled out 4G service in 38 cities covering more than 100 million people and plans to cover nearly 300 million people by the end of 2013. Similarly, AT&T has announced plans to cover 75 million people by mid-2011 and to expand rapidly after that.

The **second** point helps to define the situation we face: The most useful spectrum for wireless broadband, from 225 MHz to 3.7 GHz, is essentially occupied today. So any additional spectrum that we may devote to mobile broadband has to be spectrum that

someone else is already using. The Commission has taken first steps with respect to MSS spectrum, and NTIA is leading an effort to identify more Government spectrum that can be moved to commercial use. The upper UHF band, immediately adjacent to 700 MHz, is the natural place where some additional broadcast spectrum can be devoted efficiently to mobile broadband use.

What is the best way to bring about that change? We've proposed a mechanism that will let the marketplace do most of the work: an incentive auction. If we let each broadcast licensee decide voluntarily whether it is willing to give up spectrum and at what price, we can use a two-sided auction to transfer that spectrum to mobile broadband carriers who are willing to pay for it.

The simple fact that makes this possible is that in most markets spectrum can produce more value in broadband use than it is producing in the hands of some broadcasters, if we look at rough measures of their enterprise value. Some broadcasters in many markets are producing great value with their spectrum. But others may see value in contributing spectrum to an auction and sharing in the auction proceeds.

I'll say more in a moment about how we think incentive auctions could work and why they may offer attractive new

business options for some broadcasters -- especially in the largest markets, where the spectrum crunch is most acute.

The **third** point deserves emphasis, because it may have gotten lost as we have hammered home points one and two: This Commission is committed to promoting a healthy broadcasting industry. TV broadcasters continue to do great service to their communities and to promote the public interest in an informed and entertained citizenry. We firmly believe that an incentive auction can provide a financial shot in the arm for those broadcasters who choose to participate *and* can leave the remainder of the industry in an even stronger position to carry on the important benefits of over-the-air television.

That brings me to point **four**: It is natural to fear the unknown. The challenge for the Commission is to put meat on the bones of the incentive auction proposal, so that broadcasters and members of Congress will have a better sense of what this new mechanism will entail. We are learning a lot each day since the idea was first floated in the Broadband Plan. We have started a proceeding to establish in detail what it will mean for broadcasters to channel-share, if they choose to, and to explore what we can do to improve digital reception in the VHF channels.

We obviously can't get ahead of Congress, which will decide whether to give us incentive auction authority. But we can say more today about how we imagine incentive auctions would work: A broadcaster would decide voluntarily whether to commit to contribute spectrum, at a reserve price that the broadcaster would set. The FCC would see what spectrum is available at what cost and would auction it for flexible wireless use, with the proceeds being shared between the contributing broadcasters and the Treasury. We'd then realign the broadcast band to ensure efficient channel assignments for broadcasters and new users alike. The costs of this realignment would be paid entirely from auction proceeds.

Those broadcasters who decide to contribute spectrum will still have the opportunity to stay on the air – but with a healthy influx of new capital -- because we plan to offer options that will allow a broadcaster, if it wishes, to use auction proceeds to invest further in TV operations. We anticipate that there would be three ways, each voluntary, in which a broadcaster could participate. Each of them represents a financing option unavailable to broadcasters today.

First, a broadcaster could contribute all of a station's 6 MHz, taking that station off the air but providing a capital infusion

that could be used for any purpose, including to strengthen other stations it owns;

Second, it could contribute less than a full channel and stay on the air by sharing a channel with another station that has agreed to do the same; or

Third, it could exchange a UHF channel for a VHF channel -- and stay on the air.

Any broadcaster who chooses to take any of these options would set its own price for doing so. In the second two options, the broadcaster would retain must-carry rights to preserve its audience on cable and satellite delivery platforms.

We've naturally gotten the question, what share of auction proceeds can I expect to receive? Well, what we know is that it has to be high enough to bring a broadcaster to the table; that's the incentive part of incentive auctions. Each broadcaster will determine that for itself in setting its reserve price, presumably with the enterprise value of the station in mind. We will have a responsibility to generate proceeds for the Treasury, so we will probably accept the lowest offers in any market that will give us an

amount of spectrum we think can be effectively auctioned for new uses.

Why will some broadcasters have to change channels after the incentive auction? Realigning the band is the only practical way to produce the large, contiguous blocks of spectrum needed for wireless broadband use. This will increase the value of the spectrum at auction and prevent interference between mobile users and broadcasters. To free up those blocks, some TV stations will have to move from one channel to another. This need will exist even in some smaller markets.

We're committed to working with you to ensure that this realignment will be as painless as possible. And, having gone through the DTV transition with you, we think we'll be able to do that.

But I should first point out that the transition we're talking about will be far less disruptive than the DTV transition. The reason is that it actually builds on the fact that the industry has gone digital. No consumer equipment will have to be replaced. And while some broadcasters will have to change channels, you won't have to install a whole new infrastructure like you did with DTV.

And here's an important point: In contrast to the DTV transition, we propose to pay the full cost of channel moves from auction proceeds.

We've heard a concern that we are planning to push stations into the VHF band involuntarily. We have no such plan. Our hope is that some broadcasters will see it as a sound business decision to move to a VHF channel in exchange for compensation. Anything we can do in our current proceeding to address VHF reception issues should improve that equation.

Any time a station changes frequencies, issues of coverage or interference may arise. We know this from the DTV transition; but we also know that by working together we can handle these issues. In the end, stations gained more coverage than they lost from the DTV transition; and the Media Bureau worked hard with station owners to address any unique issues that arose. As I've noted, this transition should be much easier. But the important point is that we're in this together with you, to try to ensure that the industry comes out of this realignment in a strong position to enjoy a healthy future, just as it did with the transition to digital. We'll need your help to make sure that's the case.

And that brings me to my **fifth** point: All we ask today is that you keep an open mind about incentive auctions, while we work together to identify issues and find solutions that work for all. We are committed to designing an auction mechanism that

- will meet the need for additional spectrum for mobile broadband, and
- will benefit those broadcasters who choose to participate, and
- will leave those who choose not to participate in a strong position to continue to bring to the public the benefits of free over-the-air television.

Thank you, and I'm happy to take any questions.