



# PUBLIC NOTICE

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## AUCTION OF DIRECT BROADCAST SATELLITE SERVICE LICENSES SCHEDULED FOR AUGUST 6, 2003

### COMMENT SOUGHT ON RESERVE PRICES OR MINIMUM OPENING BIDS AND OTHER AUCTION PROCEDURES

#### Report No. AUC-03-52-A (Auction No. 52)

By this Public Notice, the Commission announces the auction of licenses to use the Direct Broadcast Satellite (“DBS”) service allocation scheduled to commence on August 6, 2003 (Auction No. 52).<sup>1</sup> This auction will include 4 licenses for unassigned channels at orbital locations of 175° W.L., 166° W.L., 157° W.L., and 61.5° W.L. These licenses would be subject to the Commission’s DBS service rules, including the geographic service rules at 47 C.F.R. section 25.148(c). Specifically, DBS licensees must provide DBS service to Alaska and Hawaii where such service is technically feasible from the authorized location. A complete list and description of the licenses available for Auction No. 52 is included as Attachment A.

The Balanced Budget Act of 1997 requires the Commission to “ensure that, in the scheduling of any competitive bidding under this subsection, an adequate period is allowed . . . before issuance of bidding rules, to permit notice and comment on proposed auction procedures . . . .”<sup>2</sup> Consistent with the provisions of the Balanced Budget Act and to ensure that potential bidders have adequate time to familiarize themselves with the specific rules that will govern the day-to-day conduct of an auction, the Commission seeks comment on a variety of auction-specific procedures relating to Auction No. 52.<sup>3</sup> We note that the

<sup>1</sup> See Policies and Rules for the Direct Broadcast Satellite Service, *Report and Order*, 17 FCC Rcd 11331 (2002) (“*Part 100 R&O*”); Revision of Rules and Policies for the Direct Broadcast Satellite Service, *Report and Order*, 11 FCC Rcd 9712 (1995).

<sup>2</sup> 47 U.S.C. § 309(j) (as amended by Section 3002(a)(E)(i), Balanced Budget Act of 1997, Pub. L. 105-33, 111 Stat. 251 (1997) (“Balanced Budget Act”).

<sup>3</sup> See Amendment of Part 1 of the Commission’s Rules — Competitive Bidding Procedures, Allocation of Spectrum Below 5 GHz Transferred from Federal Government Use, 4660-4685 MHz, *Third Report and Order and Second Further Notice of Proposed Rule Making*, 13 FCC Rcd 374, 448, ¶ 124 (1997) (“*Part 1 Third Report and Order*”). The Commission directed the Wireless Telecommunications Bureau to seek comment on specific mechanisms related to day-to-day auction conduct including, for example, the structure of bidding rounds and stages, establishment of minimum opening bids or reserve prices, minimum accepted bids, initial maximum eligibility for each bidder, activity requirements for each stage of the auction, activity rule waivers, criteria for determining reductions in eligibility, information regarding bid withdrawal and bid removal, stopping rules, and information relating to auction delay, suspension or cancellation. *Id.* at 448, ¶ 125.

authority to establish specific procedures for Auction No. 52 has already been delegated to the Wireless Telecommunications Bureau (the “Bureau” or “WTB”).<sup>4</sup>

In addition to the enactment of the Balanced Budget Act of 1997, there have been legal developments relevant to satellite services since the Commission last conducted DBS auctions. Specifically, in 1996 the Commission adopted a *Report and Order* that removed FCC regulatory prohibitions on the provision of various satellite services beyond the borders of the United States.<sup>5</sup> In addition, in the year 2000 Congress enacted Section 647 of the ORBIT Act, which prohibits the Commission from using competitive bidding to assign orbital locations or spectrum used “for the provision of international or global satellite communications services.”<sup>6</sup> In light of these regulatory and statutory actions, we believe it is appropriate to state herein our conclusion that they have not altered the Commission’s authority to auction the DBS licenses included in Auction No. 52.

The DBS licenses that will be included in Auction No. 52 are not subject to the auction prohibition of the ORBIT Act because they are not authorizations to use spectrum “for the provision of international or global satellite communications services.” These licenses are for the use of DBS channels that, under the Region 2 Band Plan for Ku-band DBS satellites initially adopted in the International Telecommunication Union (“ITU”) 1983 Regional Administrative Radio Conference, have coverage patterns that are designed to – and do in fact – serve the United States almost exclusively.<sup>7</sup> Thus, the technical parameters of the ITU Region 2 Band Plan provide for coverage areas for national service to the United States with incidental service to neighboring territories.<sup>8</sup>

Moreover, neither the national coverage patterns nor the incidental international coverage patterns of the U.S. DBS satellite assignments may be expanded without further international agreement. A U.S.-licensed satellite operator at one of the orbital locations assigned to the United States cannot change, without the agreement of affected countries, any of the satellite’s operations if that change will increase the interference potential to other countries’ DBS satellite assignments above those levels permitted by international regulation. A change in the footprint to provide increased coverage of another country will potentially

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<sup>4</sup> See Amendment of Part 1 of the Commission’s Rules — Competitive Bidding Proceeding, *Order, Memorandum Opinion and Order, and Notice of Proposed Rule Making*, 12 FCC Rcd 5686, 5697, ¶ 16 (1997) (“*Part 1 Order*”) (clarifying that pursuant to Section 0.131 of the Commission’s rules, the Chief, Wireless Telecommunications Bureau, has delegated authority to implement all of the Commission’s rules pertaining to auctions procedures).

<sup>5</sup> Amendment to the Commission’s Regulatory Policies Governing Domestic Fixed Satellites and Separate International Satellite Systems, *Report and Order*, 11 FCC Rcd 2429 (1996) (“*DISCO I*”).

<sup>6</sup> Open-Market Reorganization for the Betterment of International Telecommunications Act, Pub. L. No. 106-180, 114 Stat. 48 § 647 (enacted Mar. 12, 2000), codified at 47 U.S.C. § 765f (“ORBIT Act”). Section 647 states: “Notwithstanding any other provision of law, the Commission shall not have the authority to assign by competitive bidding orbital locations or spectrum used for the provision of international or global satellite communications services. The President shall oppose in the International Telecommunication Union and in other bilateral and multilateral fora any assignment by competitive bidding of orbital locations or spectrum used for the provision of such services.”

<sup>7</sup> The ITU Region 2 Band Plan assigns the United States to all of the channels at eight orbital locations capable of serving all or a portion of the United States. See Appendix 30 and Appendix 30A of the International Radio Regulations. Another assignment plan exists for countries in Regions 1 and 3. The licenses included in Auction No. 52 are for channels at four of these eight orbital locations.

<sup>8</sup> The Region 2 Band Plan assignments for the United States include satellite beams or “footprints” that are elliptical in shape and are designed to maximize coverage of the United States. While any elliptical footprint over the United States will spill into Canada, Mexico, and the Caribbean, coverage of these other countries will be incidental to U.S. coverage and will be limited to areas close to the U.S. border. DBS systems are thus distinguishable from those satellite systems that can be designed and/or authorized to provide international or global communications services.

cause the modified assignment to exceed these levels. For a licensee to operate with such modified parameters, the United States, on behalf of the satellite operator, must request and obtain a modification to the Region 2 Band Plan pursuant to ITU procedures. The United States has not requested modifications for international service purposes to the Region 2 Band Plan for any of the orbital channel assignments included in Auction No. 52.<sup>9</sup> Thus, the auction will assign licenses for DBS satellites that can provide almost exclusively national service, with only incidental coverage outside the U.S. borders.

*DISCO I* removed FCC regulatory prohibitions on the provision of DBS service, as well as other types of satellite service, beyond the borders of the United States.<sup>10</sup> However, *DISCO I* did not change the fact that the ITU Region 2 Band Plan provides for only an incidental signal outside U.S. borders. As noted above, the technical parameters established under the ITU Region 2 Band Plan provide for national service to the United States, with incidental service to neighboring territories. DBS providers who operate under licenses for the eight orbital locations assigned to the United States under the Plan must comply with these technical parameters.

The incidental provision of transborder service does not convert an otherwise auctionable license to an unauctionable one. The legislative history of the ORBIT Act auction exemption, which consists of a House Commerce Committee Report on an earlier, unenacted bill containing an auction exemption identical to that of Section 647 of the ORBIT Act,<sup>11</sup> expresses concern for the effect that auctions could have on the viability and availability of global and international satellite services.<sup>12</sup> The Committee indicated that an auctions exemption could help such service providers avoid financial burdens they might otherwise face if a U.S. auction regime precipitated a succession of auctions in numerous countries in which the operators might seek to provide service. The auctioning of U.S. DBS licenses that comply with the ITU Region 2 Band Plan does not implicate these concerns, given the fact that the Plan was designed to maintain the distinctly national character of the DBS service. We seek comment on these conclusions.

We also note that the Commission has not adopted any blanket eligibility restrictions on the licenses included in this auction.<sup>13</sup> In the *Part 100 R&O* proceeding, the Commission had the opportunity to address issues relating to ownership restrictions and implementation of services. The Commission considered comments filed raising such eligibility and ownership issues and declined to adopt any specific restrictions.<sup>14</sup> In this regard, we note that, in some services, the Commission has used a standard for determining whether an eligibility restriction is warranted. In those cases, we have determined that an eligibility restriction may be imposed only when there is significant likelihood of substantial harm to competition in specific markets and when the restriction will be effective in eliminating that harm. This approach results in reliance on competitive market forces to guide license assignment absent a compelling

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<sup>9</sup> A modification for additional coverage of the United States has been requested at 61.5° W.L.

<sup>10</sup> Specifically, *DISCO I* (a) eliminated the “Transborder Policy,” which required a domestic fixed satellite licensee to obtain Commission authorization before providing limited international services within the footprint of its satellite, and (b) modified the “Separate Systems Policy” by removing restrictions on domestic service that could be provided by U.S.-licensed international satellites operating separately from the worldwide Intelsat system.

<sup>11</sup> See Communications Satellite Competition and Privatization Act of 1998, H.R. 1872, 105<sup>th</sup> Cong., 2d Sess. § 649 (1998).

<sup>12</sup> Report of Committee on Commerce, Communications Satellite Competition and Privatization Act of 1998, H.R. Rep. No.494, 105 Cong., 2nd Sess. 64-65 (1998). See also Report on the Activity of the Committee on Commerce for the 106<sup>th</sup> Congress. H.R. Rep. 106-1047 at 38. (Jan. 2, 2001) (stating that the bill prohibits the Commission from auctioning orbital slots or spectrum assignments for global satellite systems).

<sup>13</sup> See *Part 100 R&O*, 17 FCC Rcd at 11332, ¶ 2.

<sup>14</sup> *Id.* at 11332-33, 11354, 11394-99, ¶¶ 2, 45, 135-144.

showing that regulatory intervention to exclude potential participants is necessary.<sup>15</sup> We seek comment as to the use of that standard for this service.

Nonetheless, one of the four licenses scheduled for auction authorizes the use of only two channels.<sup>16</sup> The Commission has previously noted that with so few authorized channels it may be difficult for a DBS licensee to provide sufficient capacity to operate a viable system.<sup>17</sup> Generally, does this concern warrant any modification of our existing open eligibility regime? We request comment on whether we should adopt any specific eligibility criteria for licenses at the 61.5° W.L. location such as: 1) whether the applicant should be an existing permittee at the 61.5° W.L. location; 2) whether the channels should be assigned to an applicant that holds no other DBS channel resources capable of serving the continental United States; and 3) whether the applicant should be required to demonstrate an ability to launch in the near future.<sup>18</sup> Should the Commission consider eligibility restrictions on particular orbital locations based on entities' market position in the provision of terrestrial multichannel video programming? Finally, we seek comment on any other proposed eligibility requirements for each of the orbital locations, including the rationale for any such requirements.

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<sup>15</sup> See, e.g., Allocations and Service Rules for the 71-76 GHz, 81-86 GHz and 92-95 GHz Bands, *Notice of Proposed Rule Making*, 17 FCC Rcd 12182, 12211-12, ¶¶ 77-78 (2002) (seeking comment on whether any eligibility restrictions are appropriate for these bands); Amendment of Parts 2 and 25 of the Commission's Rules to Permit Operation of NGSO FSS Systems Co-Frequency with GSO and Terrestrial Systems in the Ku-Band Frequency Range, Amendment of the Commission's Rules to Authorize Subsidiary Terrestrial Use of the 12.2-12.7 GHz Band by Direct Broadcast Satellite Licensees and Their Affiliates, and Applications of Broadwave USA, PDC Broadband Corporation, and Satellite Receivers, Ltd. to Provide A Fixed Service in the 12.2-12.7 GHz Band, *Memorandum Opinion and Order and Second Report and Order*, 17 FCC Rcd 9614, 9677-82, ¶¶ 159-70 (2002) (concluding that open eligibility for MVDDS licenses for DBS service providers and distributors will not result in substantial competitive harm but that open eligibility for in-region cable operators poses a significant likelihood of substantial competitive harm; and therefore prohibiting any cable operator, or any entity owning an attributable interest in a cable operator, from holding an attributable interest in an MVDDS license if such cable operator's service area significantly overlaps the MVDDS license area); Amendment of the Commission's Rules Regarding the 37.0-38.6 GHz and 38.6 - 40.0 GHz Bands, Implementation of Section 309(j) of the Communications Act – Competitive Bidding, 37.0-38.6 GHz and 38.6-40.0 GHz, *Report and Order and Second Notice of Proposed Rule Making*, 12 FCC Rcd 18600, 18619-20, ¶¶ 32-35 (1997) (finding it unlikely that substantial anticompetitive effects would result from LEC eligibility).

<sup>16</sup> See Attachment A. The 61.5° W.L. orbital location has only two channels available.

<sup>17</sup> See, e.g., Advanced Communications Corporation, *Memorandum Opinion and Order*, 11 FCC Rcd 3339, 3426, ¶ 70 (1995); United States Satellite Broadcasting Co., Inc., Transferor, and DIRECTV Enterprises, Inc., Transferee, *Order and Authorization*, 14 FCC Rcd 4585, 4595, ¶ 22 (1999).

<sup>18</sup> We note that R/L DBS raised these eligibility issues in an application that was dismissed on other grounds. See Letter from Donald Abelson, Chief, International Bureau, and John B. Muleta, Chief, Wireless Telecommunications Bureau, to David Deitch, General Counsel and Senior Vice President, R/L DBS Company, LLC, dated March 3, 2003.

The procedural issues on which the Commission seeks comment are as follows:

**I. Auction Structure**

**A. Simultaneous Multiple Round (SMR) Auction Design**

The Commission proposes to award all licenses included in Auction No. 52 in a simultaneous multiple-round auction. As described further below, this methodology offers every license for bid at the same time with successive bidding rounds in which bidders may place bids. We seek comment on this proposal.

**B. Upfront Payments and Initial Maximum Eligibility**

The Bureau has delegated authority and discretion to determine an appropriate upfront payment for each license being auctioned, taking into account such factors as the population in each geographic license area, and the value of similar spectrum.<sup>19</sup> As described further below, the upfront payment is a refundable deposit made by each bidder to establish eligibility to bid on licenses. Upfront payments related to the specific spectrum subject to auction protect against frivolous or insincere bidding and provide the Commission with a source of funds from which to collect payments owed at the close of the auction.<sup>20</sup> With these guidelines in mind for Auction No. 52, the Commission proposes to set upfront payments on a license-by-license basis as follows:<sup>21</sup>

Upfront Payments				
	Orbital Location			
	175° W.L.	166° W.L.	157° W.L.	61.5° W.L.
Per Channel	\$50,000	\$50,000	\$100,000	\$400,000
# of Channels	32	32	32	2
Upfront Payment	\$1,600,000	\$1,600,000	\$3,200,000	\$800,000

Additionally, we list all licenses and the proposed upfront payment for each in Attachment A. We seek comment on this proposal.

The Commission further proposes that the amount of the upfront payment submitted by a bidder will determine the number of bidding units on which a bidder may place bids. This limit is a bidder’s “maximum initial eligibility.” Each license is assigned a specific number of bidding units equal to the upfront payment listed in Attachment A, on a bidding unit per dollar basis. This number does not change as prices rise during the auction. A bidder’s upfront payment is not attributed to specific licenses. Rather,

<sup>19</sup> *Part 1 Order*, 12 FCC Rcd at 5697-98, ¶ 16; *see also Part 1 Third Report and Order*, 13 FCC Rcd at 425, ¶ 86.

<sup>20</sup> *See Implementation of Section 309(j) of the Communications Act - Competitive Bidding, Second Report and Order*, 9 FCC Rcd 2348, 2378-79, ¶¶ 171-176 (1994).

<sup>21</sup> We note that EchoStar Satellite Corporation ("EchoStar") filed an Application for Review of the letter issued by the International Bureau’s Satellite Division on December 24, 2002, instructing EchoStar to select its channel assignment. *See EchoStar Satellite Corporation for Assignment of Direct Broadcast Satellite Orbital Position and Channels, Application for Review*, filed January 23, 2003. On February 11, 2003, EchoStar indicated that, for a variety of reasons, assignment of its outstanding eleven channels could be satisfied with eight channels at the 148° W.L. orbital location and three channels at the 157° W.L. orbital location. *See Letter from David R. Goodfriend, Director, Legal and Business Affairs, EchoStar Satellite Corporation, to Marlene H. Dortch, Secretary, FCC, dated February 11, 2003.* Should the number of available channels at any location change prior to the auction, the applicable upfront payment will change proportionately.

a bidder may place bids on any combination of licenses as long as the total number of bidding units associated with those licenses does not exceed the bidder's eligibility. Eligibility cannot be increased during the auction. Thus, in calculating its upfront payment amount, an applicant should determine the **maximum** number of bidding units it may wish to bid on (or hold high bids on) in any single round and submit an upfront payment covering that number of bidding units. We seek comment on this proposal.

### C. Activity Rules

In order to ensure that the auction closes within a reasonable period of time, an activity rule requires bidders to bid actively on a percentage of their current bidding eligibility during each round of the auction rather than waiting until the end to participate. A bidder that does not satisfy the activity rule will either use an activity rule waiver (if any remain) or lose bidding eligibility for the next round.

The Commission proposes to divide the auction into three stages, each characterized by an increased activity requirement. The auction will start in Stage One. We propose that the auction will advance to the next stage (*i.e.*, from Stage One to Stage Two, and from Stage Two to Stage Three) after two consecutive rounds in which only one new high bid is placed in each round.<sup>22</sup> The Bureau will notify bidders by announcement when a stage transition takes place during the auction. We also propose that the Bureau retain discretion to change stages unilaterally by announcement during the auction, and further propose that the Bureau retain the discretion not to make a transition to the next stage when the conditions described above are met. In exercising this discretion, the Bureau will consider a variety of measures of bidder activity, including, but not limited to, the auction activity level, the percentage of licenses (as measured in bidding units) on which there are new bids,<sup>23</sup> the number of new bids, and the percentage increase in revenue. We seek comment on these proposals.

For Auction No. 52, we propose the following activity requirements:

**Stage One:** In each round of the first stage of the auction, a bidder desiring to maintain its current eligibility is required to be active on licenses representing at least 50 percent of its current bidding eligibility. Failure to maintain the requisite activity level will result in a reduction in the bidder's bidding eligibility in the next round of bidding (unless an activity rule waiver is used). During Stage One, reduced eligibility for the next round will be calculated by multiplying the current round activity by two.

**Stage Two:** In each round of the second stage, a bidder desiring to maintain its current eligibility is required to be active on 75 percent of its current bidding eligibility. During Stage Two, reduced eligibility for the next round will be calculated by multiplying the current round activity by four-thirds (4/3).

**Stage Three:** In each round of the third stage, a bidder desiring to maintain its current eligibility is required to be active on 100 percent of its current bidding eligibility. In this final stage, reduced eligibility for the next round will be set at current round activity. For example, if a bidder is not the standing high bidder and did not place a bid in the current round its eligibility would be reduced to zero. If it had no waivers remaining, it would be eliminated from the auction.

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<sup>22</sup> As explained further in Section II.D., "High Bids," in the event of identical high bids on a license in a given round (*i.e.*, tied bids), we select a high bid from among the tied bids. Thus, identical high bids on a license result in one new high bid. For purposes of changing stages, absent new high bids on other licenses, identical high bids on a license meet the criteria of only one new high bid.

<sup>23</sup> For example, when monitoring activity for determining when to change stages, the Bureau may consider the percentage of bidding units of the licenses receiving new high bids, excluding any FCC-held licenses.

We seek comment on these proposals. Commenters that believe these activity rules should be modified should explain their reasoning and comment on the desirability of an alternative approach. Commenters are advised to support their claims with analyses and suggested alternative activity rules.

#### **D. Activity Rule Waivers and Reducing Eligibility**

Use of an activity rule waiver preserves the bidder's current bidding eligibility despite the bidder's activity in the current round being below the required minimum level. An activity rule waiver applies to an entire round of bidding and not to a particular license. Activity rule waivers can be either proactive or automatic and are principally a mechanism for auction participants to avoid the loss of auction eligibility in the event that exigent circumstances prevent them from placing a bid in a particular round. **Note: Once a proactive waiver is submitted during a round, that waiver cannot be unsubmitted.**

The Automated Auction System assumes that bidders with insufficient activity would prefer to use an activity rule waiver (if available) rather than lose bidding eligibility. Therefore, the system will automatically apply a waiver (known as an "automatic waiver") at the end of any bidding round in which a bidder's activity level is below the minimum required unless: (1) the bidder has no activity rule waivers remaining; or (2) the bidder overrides the automatic application of a waiver by reducing eligibility, thereby meeting the minimum requirements. **Note: If a bidder has no waivers remaining and does not satisfy the required activity level, its current eligibility will be permanently reduced, possibly eliminating the bidder from the auction.**

A bidder with insufficient activity may wish to reduce its bidding eligibility rather than use an activity rule waiver. If so, the bidder must affirmatively override the automatic waiver mechanism during the bidding period by using the "reduce eligibility" function in the bidding system. In this case, the bidder's eligibility is permanently reduced to bring the bidder into compliance with the activity rules as described above. Once eligibility has been reduced, a bidder will not be permitted to regain its lost bidding eligibility.

A bidder may proactively use an activity rule waiver as a means to keep the auction open without placing a bid. If a bidder submits a proactive waiver (using the "proactive waiver" function in the bidding system) during a bidding period in which no bids or withdrawals are submitted, the auction will remain open and the bidder's eligibility will be preserved. An automatic waiver invoked in a round in which there are no new valid bids or withdrawals will not keep the auction open.

The Commission proposes that each bidder in Auction No. 52 be provided with three activity rule waivers that may be used at the bidder's discretion during the course of the auction as set forth above. We seek comment on this proposal.

#### **E. Information Relating to Auction Delay, Suspension, or Cancellation**

For Auction No. 52, we propose that, by public notice or by announcement during the auction, the Bureau may delay, suspend, or cancel the auction in the event of natural disaster, technical obstacle, evidence of an auction security breach, unlawful bidding activity, administrative or weather necessity, or for any other reason that affects the fair and efficient conduct of competitive bidding.<sup>24</sup> In such cases, the Bureau may elect to resume the auction starting from the beginning of the current round, resume the auction starting from some previous round, or cancel the auction in its entirety. Network interruption may cause the Bureau to delay or suspend the auction. We emphasize that exercise of this authority is solely within the discretion of the Bureau and its use is not intended to be a substitute for situations in which bidders may wish to apply their activity rule waivers. We seek comment on this proposal.

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<sup>24</sup> 47 C.F.R. § 1.2104(i).

## II. Bidding Procedures

### A. Round Structure

The Commission will conduct Auction No. 52 over the Internet. Telephonic Bidding will also be available. As a contingency, the FCC Wide Area Network will be available as well. The telephone number through which the backup FCC Wide Area Network may be accessed will be announced in a later public notice. Full information regarding how to establish such a connection, and related charges, will be provided in the public notice announcing details of auction procedures.

The initial bidding schedule will be announced in a public notice listing the qualified bidders, which is released approximately 10 days before the start of the auction. The simultaneous multiple round format will consist of sequential bidding rounds, each followed by the release of round results. Details regarding the location and format of round results will also be included in the qualified bidders public notice.

The Bureau has discretion to change the bidding schedule in order to foster an auction pace that reasonably balances speed with the bidders' need to study round results and adjust their bidding strategies. The Bureau may increase or decrease the amount of time for the bidding rounds and review periods, or the number of rounds per day, depending upon the bidding activity level and other factors. We seek comment on this proposal.

### B. Reserve Price or Minimum Opening Bid

The Balanced Budget Act calls upon the Commission to prescribe methods for establishing a reasonable reserve price or a minimum opening bid when FCC licenses are subject to auction, unless the Commission determines that a reserve price or minimum opening bid is not in the public interest.<sup>25</sup> Normally, a reserve price is an absolute minimum price below which an item will not be sold in a given auction. Reserve prices can be either published or unpublished. A minimum opening bid, on the other hand, is the minimum bid price set at the beginning of the auction below which no bids are accepted. It is generally used to accelerate the competitive bidding process. Also, the auctioneer often has the discretion to lower the minimum opening bid amount later in the auction. It is also possible for the minimum opening bid and the reserve price to be the same amount.

In light of the Balanced Budget Act's requirements, the Commission proposes to establish minimum opening bids for Auction No. 52. We believe that a minimum opening bid, which has been utilized in other auctions, is an effective bidding tool.<sup>26</sup>

Specifically, for Auction No. 52, the Commission proposes to set minimum opening bids on a license-by-license basis as follows:<sup>27</sup>

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<sup>25</sup> 47 U.S.C. § 309(j) (as amended by Balanced Budget Act, Section 3002(a)). The Commission's authority to establish a reserve price or minimum opening bid is set forth in 47 C.F.R. § 1.2104(c) and (d). Consistent with this mandate, the Commission has directed WTB to seek comment on the use of a minimum opening bid and/or reserve price prior to the start of each auction. *Part 1 Third Report and Order*, 13 FCC Rcd at 454-55, ¶ 141.

<sup>26</sup> See, e.g., Auction of 800 MHz SMR Upper 10 MHz Band, Minimum Opening Bids or Reserve Prices, *Order*, 12 FCC Rcd 16354, 16357-58, ¶ 10 (1997); Auction of the Phase II 220 MHz Service Licenses, Auction Notice and Filing Requirements for 908 Licenses Consisting of Economic Area (EA), Economic Area Grouping (EAG), and Nationwide Licenses, Scheduled for September 15, 1998, Minimum Opening Bids and Other Procedural Issues, *Public Notice*, 13 FCC Rcd 16445 (1998).

<sup>27</sup> See *infra* fn 21. Should the number of available channels at any location change prior to the auction, the applicable minimum opening bid will change proportionately.



Minimum Opening Bids				
	Orbital Location			
	175° W.L.	166° W.L.	157° W.L.	61.5° W.L.
Per Channel	\$100,000	\$100,000	\$200,000	\$800,000
# of Channels	32	32	32	2
Minimum Opening Bid	\$3,200,000	\$3,200,000	\$6,400,000	\$1,600,000

The specific minimum opening bid for each license available in Auction No. 52 is also set forth in Attachment A herein. Comment is sought on this proposal.

If commenters believe that these minimum opening bids will result in a substantial percentage of unsold licenses, or are not reasonable amounts, or should instead operate as reserve prices, they should explain why this is so, and comment on the desirability of an alternative approach. Commenters are advised to support their claims with valuation analyses and suggested reserve prices or minimum opening bid levels or formulas. In establishing the minimum opening bids, we particularly seek comment on such factors as the orbital location and the number of channels being auctioned, the size of the area being served, issues of interference with other spectrum bands and any other relevant factors that could reasonably have an impact on valuation of the DBS licenses. Alternatively, comment is sought on whether, consistent with the Balanced Budget Act, the public interest would be served by having no minimum opening bid or reserve price.

### C. Minimum Acceptable Bids and Bid Increments

In each round, eligible bidders will be able to place bids on a given license in any of nine different amounts.<sup>28</sup> The Automated Auction System interface will list the nine acceptable bid amounts for each license. Until a bid has been placed on a license, the minimum acceptable bid for that license will be equal to its minimum opening bid. In the rounds after an acceptable bid is placed on a license, the minimum acceptable bid for that license will be equal to the standing high bid plus the defined increment.

Once there is a standing high bid on a license, the Automated Auction System will calculate a minimum acceptable bid for that license for the following round, as described below. The difference between the minimum acceptable bid and the standing high bid for each license will define the **bid increment**. The nine acceptable bid amounts for each license consist of the minimum acceptable bid (the standing high bid plus one bid increment) and additional amounts calculated using multiple bid increments (i.e., the second bid amount equals the standing high bid plus two times the bid increment, the third bid amount equals the standing high bid plus three times the bid increment, etc.).

For Auction No. 52, the Commission proposes to use a 10 percent bid increment. This means that the minimum acceptable bid for a license will be approximately 10 percent greater than the previous standing high bid received on the license. The minimum acceptable bid amount will be calculated by multiplying the standing high bid times one plus the increment percentage – i.e., (standing high bid) \* (1.10). We will round the result using our standard rounding procedures for minimum acceptable bid calculations: results above \$10,000 are rounded to the nearest \$1,000; results below \$10,000 but above \$1,000 are rounded to the nearest \$100; and results below \$1,000 are rounded to the nearest \$10.

As stated above, until a bid has been placed on a license, the minimum acceptable bid for that license will be equal to its minimum opening bid. The additional bid amounts are calculated using the difference

<sup>28</sup> Bidders must have sufficient eligibility to place a bid on the particular license. See Section I.B. (“Upfront Payments and Initial Maximum Eligibility”), *supra*.

between the minimum opening bid times one plus the minimum percentage increment, rounded as described above, and the minimum opening bid. That is,  $I = (\text{minimum opening bid})(1 + N)\{\text{rounded}\} - (\text{minimum opening bid})$ . Therefore, when  $N$  equals 0.1, the first additional bid amount will be approximately ten percent higher than the minimum opening bid; the second, twenty percent; the third, thirty percent; etc.

In the case of a license for which the standing high bid has been withdrawn,<sup>29</sup> the minimum acceptable bid will equal the second highest bid received for the license. The additional bid amounts are calculated using the difference between the second highest bid times one plus the minimum percentage increment, rounded, and the second highest bid.

The Bureau retains the discretion to change the minimum acceptable bids and bid increments if it determines that circumstances so dictate. The Bureau will do so by announcement in the Automated Auction System. We seek comment on these proposals.

#### **D. High Bids**

At the end of a bidding round, the high bids will be determined based on the highest gross bid amount received for each license. A high bid from a previous round is sometimes referred to as a “standing high bid.” A “standing high bid” will remain the high bid until there is a higher bid on the same license at the close of a subsequent round. Bidders are reminded that standing high bids confer bidding activity.<sup>30</sup>

In the event of identical high bids on a license in a given round (i.e., tied bids), we propose to use a random number generator to select a high bid from among the tied bids. The remaining bidders, as well as the high bidder, will be able to submit a higher bid in a subsequent round. If no bidder submits a higher bid in a subsequent round, the high bid from the previous round will win the license. If any bids are received on the license in a subsequent round, the high bid again will be determined by the highest gross bid amount received for the license.

#### **E. Information Regarding Bid Withdrawal and Bid Removal**

For Auction No. 52, the Commission proposes the following bid removal and bid withdrawal procedures. Before the close of a bidding period, a bidder has the option of removing any bid placed in that round. By removing selected bids in the bidding system, a bidder may effectively “unsubmit” any bid placed within that round. A bidder removing a bid placed in the same round is not subject to a withdrawal payment. Once a round closes, a bidder may no longer remove a bid.

A high bidder may withdraw its standing high bids from previous rounds using the “withdraw function” in the bidding system. A high bidder that withdraws its standing high bid from a previous round is subject to the bid withdrawal payment provisions of the Commission rules.<sup>31</sup> We seek comment on these bid removal and bid withdrawal procedures.

In the *Part 1 Third Report and Order*, the Commission explained that allowing bid withdrawals facilitates efficient aggregation of licenses and the pursuit of efficient backup strategies as information becomes available during the course of an auction. The Commission noted, however, that, in some instances, bidders may seek to withdraw bids for improper reasons. The Bureau, therefore, has discretion in managing the auction, to limit the number of withdrawals to prevent any bidding abuses. The Commission

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<sup>29</sup> See Section II.E. “Information Regarding Bid Withdrawal and Bid Removal,” *infra*.

<sup>30</sup> See Section I.C. “Activity Rules,” *supra*.

<sup>31</sup> 47 C.F.R. §§ 1.2104(g), 1.2109.

stated that the Bureau should assertively exercise its discretion, consider limiting the number of rounds in which bidders may withdraw bids, and prevent bidders from bidding on a particular market if the Bureau finds that a bidder is abusing the Commission's bid withdrawal procedures.<sup>32</sup>

Applying this reasoning, the Commission proposes to limit each bidder in Auction No. 52 to withdrawing standing high bids in no more than one round during the course of the auction. To permit a bidder to withdraw bids in more than one round would likely encourage insincere bidding or the use of withdrawals for anti-competitive purposes. The round in which withdrawals are utilized will be at the bidder's discretion; withdrawals otherwise must be in accordance with the Commission's rules. There is no limit on the number of standing high bids that may be withdrawn in the round in which withdrawals are utilized. Withdrawals will remain subject to the bid withdrawal payment provisions specified in the Commission's rules. We seek comment on this proposal.

## **F. Stopping Rule**

The Commission has discretion "to establish stopping rules before or during multiple round auctions in order to terminate the auction within a reasonable time."<sup>33</sup> For Auction No. 52, the Commission proposes to employ a simultaneous stopping rule approach. A simultaneous stopping rule means that all licenses remain open until bidding closes simultaneously on all licenses.

Bidding will close simultaneously on all licenses after the first round in which no new acceptable bids, proactive waivers, or withdrawals are received. Thus, unless circumstances dictate otherwise, bidding will remain open on all licenses until bidding stops on every license.

However, the Commission proposes that the Bureau retain discretion to exercise any of the following options during Auction No. 52:

1. Utilize a modified version of the simultaneous stopping rule. The modified stopping rule would close the auction for all licenses after the first round in which no bidder submits a proactive waiver, withdrawal, or a new bid on any license on which it is not the standing high bidder. Thus, absent any other bidding activity, a bidder placing a new bid on a license for which it is the standing high bidder would not keep the auction open under this modified stopping rule. The Commission further seeks comment on whether this modified stopping rule should be used at any time or only in stage three of the auction.
2. Keep the auction open even if no new acceptable bids or proactive waivers are submitted and no previous high bids are withdrawn. In this event, the effect will be the same as if a bidder had submitted a proactive waiver. The activity rule, therefore, will apply as usual, and a bidder with insufficient activity will either lose bidding eligibility or use a remaining activity rule waiver.
3. Declare that the auction will end after a specified number of additional rounds ("special stopping rule"). If the Bureau invokes this special stopping rule, it will accept bids in the specified final round(s) only for licenses on which the high bid increased in at least one of a specified preceding number of rounds.

The Commission proposes that the Bureau exercise these options only in certain circumstances, such as, for example, where the auction is proceeding very slowly, there is minimal overall bidding activity, or it appears likely that the auction will not close within a reasonable period of time. Before exercising these options, the Bureau is likely to attempt to increase the pace of the auction by, for example, increasing the number of bidding rounds per day, and/or increasing the amount of the minimum bid increments for the

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<sup>32</sup> *Part 1 Third Report and Order*, 13 FCC Rcd at 460, ¶ 150.

<sup>33</sup> 47 C.F.R. § 1.2104(e).

limited number of licenses for which there is still a high level of bidding activity. We seek comment on these proposals.

### **III. Conclusion**

Comments are due on or before March 17, 2003, and reply comments are due on or before March 24, 2003. Because of the disruption of regular mail and other deliveries in Washington, DC, the Bureaus require that all comments and reply comments be filed electronically. Comments and reply comments must be sent by electronic mail to the following address: [auCTION52@fcc.gov](mailto:auCTION52@fcc.gov).<sup>34</sup> The electronic mail containing the comments or reply comments must include a subject or caption referring to Auction No. 52 Comments. The Commission requests that parties format any attachments to electronic mail as Adobe® Acrobat® (pdf) or Microsoft® Word documents. Copies of comments and reply comments will be available for public inspection during regular business hours in the FCC Public Reference Room, Room CY-A257, 445 12th Street, SW, Washington, DC 20554.

**In addition, the Commission requests that commenters fax a courtesy copy of their comments and reply comments to the attention of Kathryn Garland at (717) 338-2850.**

This proceeding has been designated as a “permit-but-disclose” proceeding in accordance with the Commission’s *ex parte* rules.<sup>35</sup> Persons making oral *ex parte* presentations are reminded that memoranda summarizing the presentations must contain summaries of the substance of the presentations and not merely a listing of the subjects discussed. More than a one or two sentence description of the views and arguments presented is generally required.<sup>36</sup> Other rules pertaining to oral and written *ex parte* presentations in permit-but-disclose proceedings are set forth in Section 1.1206(b) of the Commission’s rules.<sup>37</sup>

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<sup>34</sup> Comments and reply comments in response to this Public Notice may not be filed using the Commission’s Electronic Comment Filing System, which is used for the Commission’s docketed rule making proceedings.

<sup>35</sup> 47 C.F.R. §§ 1.1200(a), 1.1206.

<sup>36</sup> 47 C.F.R. § 1.1206(b).

<sup>37</sup> *Id.*

For further information concerning this proceeding, contact:

**Auctions and Industry Analysis Division, WTB**

For legal questions: Brian Carter at (202) 418-0660

For general auction questions: Jeff Crooks at (202) 418-0660  
Lisa Stover at (717) 338-2888

**Satellite Division, IB**

For service rule questions: Selina Khan at (202) 418-7282  
Rockie Patterson at (202) 418-1183

Action by the Commission on February 26, 2003: by Chairman Powell and Commissioners Abernathy, Copps, Martin and Adelstein.

– FCC –

**Auction No. 52 – DBS  
FCC 03-40  
Attachment A  
DBS Licenses: Orbital Locations and Channels, with Incumbents for 61.5° W.L.**

Channel	Western Positions			Eastern Position
	175° W.L.	166° W.L.	157° W.L.	61.5° W.L.
1				R/L DBS
2				Echostar
3				R/L DBS
4				Echostar
5				R/L DBS
6				Echostar
7				R/L DBS
8				Echostar
9				R/L DBS
10				Echostar
11				R/L DBS
12				Echostar
13				R/L DBS
14				Echostar
15				R/L DBS
16				Echostar
17				R/L DBS
18				Echostar
19				R/L DBS
20				Echostar
21				R/L DBS
22				Echostar
23				
24				
25				Dominion
26				Dominion
27				Dominion
28				Dominion
29				Dominion
30				Dominion
31				Dominion
32				Dominion
<b>Total No. of Available Channels</b>	<b>32</b>	<b>32</b>	<b>32</b>	<b>2</b>
<b>License No.</b>	<b>DB-175</b>	<b>DB-166</b>	<b>DB-157</b>	<b>DB-61.5</b>
<b>Bidding Units</b>	<b>1,600,000</b>	<b>1,600,000</b>	<b>3,200,000</b>	<b>800,000</b>
<b>Upfront Payment</b>	<b>\$1,600,000</b>	<b>\$1,600,000</b>	<b>\$3,200,000</b>	<b>\$800,000</b>
<b>Minimum Opening Bid</b>	<b>\$3,200,000</b>	<b>\$3,200,000</b>	<b>\$6,400,000</b>	<b>\$1,600,000</b>

Note: For each orbital location, the shaded cells show the channels that comprise the license.