

**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Connect America Fund Phase II Auction	)	AU Docket No. 17-182
	)	
Connect America Fund	)	WC Docket No. 10-90

**COMMENTS  
of  
UNITED STATES CELLULAR CORPORATION**

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## TABLE OF CONTENTS

SUMMARY .....	ii
I. INTRODUCTION. ....	2
II. THE COMMISSION SHOULD NOT PERMIT PACKAGE BIDDING IN THE CONNECT AMERICA FUND PHASE II AUCTION. ....	4
A. Package Bidding Would Inflict Significant Disadvantages on Smaller Bidders.....	5
1. Package Bidding Would Severely Handicap the Ability of Smaller Carriers to Compete Effectively for Connect America Fund Phase II Support. ....	6
2. Package Bidding Would Introduce Unwarranted Complexity to the Auction 903 Bidding Process. ....	9
B. If the Commission Adopts Package Bidding for Auction 903, It Should Require That Census Block Groups Included in a Package Bid Must Be Located in the Same County.....	12
III. CONCLUSION.....	14

## SUMMARY

The Connect America Fund Phase II auction will disburse nearly \$2 billion to carriers to provide voice and broadband service in unserved high-cost areas throughout rural America, and U.S. Cellular shares the Commission's objective that the auction must maximize the value received by consumers from this support.

An effective way to pursue this objective is for the Commission to adopt competitive bidding procedures that generally are open, fair, and competitive, and that specifically provide small rural wireline and wireless carriers with realistic opportunities to compete for targeted support enabling them to serve small communities in sparsely populated rural areas.

A proposal made by the Commission in the *Auction 903 Public Notice*—to provide CAF-II auction participants with a package bidding option—conflicts with the Commission's objective and threatens to undermine small rural carriers' participation in the auction. The Commission should heed its own determinations in previous spectrum auction and universal service reverse auction proceedings that acknowledge the disadvantages of package bidding mechanisms, and should not adopt its package bidding proposal for Auction 903.

Package bidding would favor large bidders in the CAF-II auction, to the detriment of small rural wireline and wireless carriers. The Commission's proposal would enable large carriers to fashion package bids on a statewide basis, threatening to crowd out smaller carriers and to block their efforts to win CAF-II funding for targeted rural service areas.

Smaller carriers likely will lack the resources needed to engage in package bidding, especially in light of the demands that package bidding places on bidders due to the complexity of

package bidding procedures. The advantages that package bidding provides to large bidders, coupled with its practical inaccessibility to small rural wireline and wireless carriers, could force many of these small carriers to decide not to participate in Auction 903.

If the Commission nonetheless decides to include a package bidding option as part of its CAF-II auction procedures, it should not permit package bidding on a statewide basis. Instead, it should limit the scope of package bidding to counties. Doing so would serve to reduce the risk of auction manipulation by large carriers and promote participation by small rural carriers.

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United States Cellular Corporation (“U.S. Cellular”), by counsel, hereby submits these Comments, in response to the Commission’s Public Notice seeking comment on proposed competitive bidding procedures and certain program requirements relating to the Connect America Fund Phase II (“CAF-II”) competitive bidding process.<sup>1</sup>

U.S. Cellular provides mobile wireless voice and broadband service in nearly 200 markets across 24 states located in regional clusters across the United States. The overwhelming majority of the geography served by U.S. Cellular is in rural America. U.S. Cellular is a long-time participant in the Commission’s universal service program, and has been designated as an eligible telecommunications carrier in 14 states. U.S. Cellular has used universal service support to find ways to build cellular towers in small towns and adjacent to rural roads—areas where population density, income levels, and commercial development are often well below those in the Nation’s urban areas.

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<sup>1</sup> *Comment Sought on Competitive Bidding Procedures and Certain Program Requirements for the Connect America Fund Phase II Auction (Auction 903)*, Public Notice, 32 FCC Rcd 6238 (2017) (“*Auction 903 Public Notice*”).

## I. INTRODUCTION.

The Commission intends the CAF-II auction to be an open process that encourages participation by small carriers.<sup>2</sup> As Commissioner Rosenworcel has explained, “our framework [for Auction 903] ensures that the auction will be open. We need broad participation because there is no one-size-fits-all solution when it comes to getting service in rural communities. So we are open to any provider and technology that meets essential broadband performance and financial criteria.”<sup>3</sup> U.S. Cellular embraces these goals and looks forward to participating in an auction process that is open, fair, and competitive.

As the Commission proceeds down the path of structuring the CAF-II auction to meet its goals for CAF-II, U.S. Cellular urges the Commission to avoid taking a wrong turn on an important issue affecting small rural and regional carriers. Specifically, the Commission should not adopt its proposal to provide Auction 903 bidders with a package bidding option. Instead, the Commission should permit only individual bids to serve locations in eligible census blocks within specified census block groups. Prohibiting auction participants from bidding on packages of bidder-specified lists of census block groups will help to realize the Commission’s objectives for an effective, competitive, and successful CAF-II auction, which, in turn, will result in the efficient use of CAF support “to make affordable broadband available to all Americans . . . .”<sup>4</sup>

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<sup>2</sup> See, e.g., *Connect America Fund et al.*, Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 5949, 6106 (2016) (“*CAF-II Auction Order*” and “*CAF-II Further NPRM*”), Statement of Commissioner Mignon L. Clyburn (indicating that “[t]he Order encourages smaller entrants to participate in the competitive auction”).

<sup>3</sup> *Id.* at 6108, Statement of Commissioner Jessica Rosenworcel.

<sup>4</sup> *Connect America Fund et al.*, WC Docket No. 10-90, *et al.*, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17670 (para. 11) (2011), *aff’d sub nom.*, *In re: FCC 11-161*, 753 F.3d 1015 (10th Cir. 2014).

In order to ensure that CAF-II support is allocated “on a fully competitive basis[,]”<sup>5</sup> the Commission must ensure that its auction rules and procedures do not unfairly disadvantage smaller carriers, especially in our nation’s rural areas. Chairman Pai has underscored the importance of encouraging participation by smaller carriers, stating that whether carriers and other service providers seeking CAF-II support in Auction 903 “have two hundred customers or two million, we want them to join in our mission to connect all Americans.”<sup>6</sup>

Package bidding would erect a substantial roadblock in the path of smaller carriers seeking to join in the Commission’s CAF-II mission. As a general matter, package bidding favors large bidders by giving them an advantage that is inaccessible to small bidders, while discouraging participation by smaller bidders who lack the resources to deal with its inherent complexity; individual bidding generally is better suited to these smaller carriers’ bidding strategies.<sup>7</sup> In light of these deficiencies, the Commission has concluded that “the advantages of combinatorial bidding appear unlikely to outweigh the disadvantages.”<sup>8</sup>

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<sup>5</sup> *Id.* at 17732 (para. 178).

<sup>6</sup> *Auction 903 Public Notice*, 32 FCC Rcd at 6279, Statement of Chairman Ajit Pai. Chairman Pai also noted that:

We expect that this auction will attract companies that have never before received universal service funding. Among others, I’m thinking here about some small competitive providers and electrical co-operatives that want to bring fiber to neighbors currently on the wrong side of the divide. And fixed wireless providers that can efficiently serve remote areas. And satellite providers aiming to bring connectivity that’s comparable to land-based networks. This is an exciting opportunity.

*Id.*

<sup>7</sup> *See, e.g.*, U.S. Cellular Comments, AU Docket No. 14-78 (filed June 9, 2014) (“U.S. Cellular June 2014 Comments”), at 5 (explaining that (“[p]ackage bidding biases an auction in favor of the package bid, disadvantaging all but the largest bidders and likely excluding smaller bidders from any meaningful auction participation”).

<sup>8</sup> *Implementation of Section 309(j) of the Communications Act – Competitive Bidding*, PP Docket No. 94-178, Fifth Report and Order, 9 FCC Rcd 5532, 5546 (para. 35) (1994), *quoted in* U.S. Cellular June 2014 Comments at 8. *See Mobility Fund Phase I Auction Scheduled for September 27, 2012, Notice and Filing*

Given the Commission's commitment to promoting participation by small rural and regional carriers in the CAF-II auction, given the strong Commission precedent against the use of package bidding in Commission auctions,<sup>9</sup> and taking into account the disadvantages package bidding would impose on smaller carriers and the complexities it would bring to the bidding process, the Commission should decline to provide any package bidding procedures in Auction 903.

## **II. THE COMMISSION SHOULD NOT PERMIT PACKAGE BIDDING IN THE CONNECT AMERICA FUND PHASE II AUCTION.**

The Commission proposed the use of package bidding for the CAF-II auction three years ago.<sup>10</sup> Last year, in a rulemaking seeking comment on three discrete sets of issues relating to the process for determining winning bidders in the CAF-II auction, the Commission noted that a forthcoming public notice would seek comment on other auction procedures that must be resolved in order to conduct the auction, including package bidding.<sup>11</sup>

The Commission has taken this step in the *Auction 903 Public Notice*, "propos[ing] package bidding procedures that will give bidders the option to place bids to serve a bidder-specified list of census block groups ...."<sup>12</sup> The Commission also proposes that each census block group, in

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*Requirements and Other Procedures for Auction 901*, AU Docket No. 12-25, Public Notice, 12 FCC Rcd 4725, 4763 (WTB & WCB 2012) (footnote omitted) ("*Auction 901 Procedures Public Notice*") (declining to permit package bidding because the absence of package bidding "may simplify the bidding process").

<sup>9</sup> As U.S. Cellular will discuss, the Commission has rejected package bidding in both spectrum auctions and in competitive bidding for universal service support.

<sup>10</sup> *Connect America Fund, et al.*, WC Docket No. 10-90, *et al.*, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, 29 FCC Rcd 7051, 7125 (para. 228) (2014).

<sup>11</sup> *CAF-II Further NPRM*, 31 FCC at 6021 (para. 205). Then-Commissioner Pai indicated that, "though we do not yet adopt package bidding for the auction, the consensus is certainly heading in that direction." *Id.* at 6110, Statement of Commissioner Ajit Pai Approving in Part and Concurring in Part (footnote omitted). As U.S. Cellular demonstrates in these Comments, there are ample grounds, as well as Commission precedent, for shifting this consensus to a new direction that rejects package bidding.

<sup>12</sup> *Auction 903 Public Notice*, 32 FCC Rcd at 6264 (para. 90).

the list of census block groups comprising a bidder's specified package bid, must be in the same state,<sup>13</sup> and seeks comment on whether it "should set a limit on the total amount of implied support that may be included in a single package."<sup>14</sup>

The Commission asks whether the option to submit package bids would be useful to bidders that have small networks.<sup>15</sup> The fact is that any theoretical advantages that package bidding might have for smaller carriers are substantially outweighed by the disadvantages that package bidding would impose on smaller carriers seeking to compete successfully in Auction 903. Moreover, the complexities associated with package bidding would likely be particularly problematic for smaller carriers attempting to bid in the auction, as well as for the Commission in its administration of the auction.<sup>16</sup>

**A. Package Bidding Would Inflict Significant Disadvantages on Smaller Bidders.**

The package bidding procedures proposed by the Commission may be attractive to larger bidders for CAF-II support, but it is far more likely that package bidding would work to the disadvantage of smaller carriers. Larger bidders' use of package bidding in Auction 903 would likely make it difficult for smaller carriers to compete for funding for the deployment of networks in areas they seek to serve. Package bidding would also add considerable complexity to the Auction 903 bidding processes, which would further disadvantage smaller carriers

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<sup>13</sup> *Id.* at 6264 (para. 91).

<sup>14</sup> *Id.*

<sup>15</sup> *Id.* at 6264 (para. 93).

<sup>16</sup> As U.S. Cellular discusses in Section II.B., *infra*, however, if the Commission insists on adopting a package bidding option for Auction 903, then a modified version of the Commission's package bidding proposal could have the effect of reducing the negative impact of package bidding on smaller carriers.

**1. Package Bidding Would Severely Handicap the Ability of Smaller Carriers to Compete Effectively for Connect America Fund Phase II Support.**

As U.S. Cellular has explained in previous filings with the Commission, in the spectrum auction context package bidding is problematic because it “greatly increases the likelihood that large bidders will tie-up multiple licenses in large package bids, and thereby exclude smaller bidders with targeted business plans from acquiring the spectrum necessary to serve rural areas.”<sup>17</sup> In a report submitted to the Commission by National Economic Research Associates, Inc. (“NERA”), in January 2014 relating to 600 MHz band licensing, NERA indicated that:

Our understanding is that the lack of enthusiasm of smaller bidders for package bidding reflects a fear that they will be unable to compete against large package bids submitted by national bidders. Their concern is that large bidders may leverage their strength in major metropolitan areas to ensure they also win spectrum in other regions as well. This is a valid concern even if such bidding behavior is not deliberate: large bidders may simply pay little attention to the value of many individual licenses, especially ones with smaller populations, instead only focusing on them as part of a larger package. As a result, local bidders may lose out, even if their marginal values are actually above their national rivals.<sup>18</sup>

Similarly, in the context of reverse auctions for universal service support, package bidding provides larger carriers with an opportunity to bid for and receive support covering greater geographic areas, which threatens to crowd out smaller carriers that are less likely to be able to engage in package bidding. A likely outcome of package bidding, especially if conducted on a statewide basis as is proposed for CAF-II, would be that, to the extent larger carriers’ package bids included

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<sup>17</sup> U.S. Cellular Comments, GN Docket No. 12-268, *et al.*, (filed Jan. 9, 2014) (“U.S. Cellular January 2014 Comments”), at 33. *See* U.S. Cellular Reply Comments, GN Docket No. 13-185 (filed Oct. 28, 2013), at 44 (explaining that “package bidding greatly increases the likelihood that large bidders will tie-up multiple licenses in large package bids, and thereby exclude smaller bidders who have neither the business need nor resources to bid on a large package of licenses”).

<sup>18</sup> Ex Parte Letter from Richard Marsden, Vice President, NERA, to Marlene H. Dortch, Secretary, FCC, GN Docket Nos. 12-268, 13-185 (undated), Attachment, NERA Economic Consulting, *Local and Regional Licensing for the US 600 MHz Band (Incentive Auction)*, A NERA Report (Jan. 2014) at 49.

rural sparsely populated rural areas, smaller carriers targeting these sparsely populated areas would have difficulty competing against the package bids of larger carriers.

A further problem is that smaller carriers typically lack the resources needed to directly compete for funding by making package bids.<sup>19</sup> In addition, given their interest in receiving support for targeted areas, smaller carriers may lack any incentive to compete for funding based on package bids, and permitting package bids on a statewide basis would be irrelevant to their bidding strategies. In contrast, the inclusion of a package bidding option would likely create incentives for larger carriers to engage in strategic bidding for support based on large packages.

The combination of these factors—large carriers’ incentives for strategic bidding, the disparity in resources available to small carriers and large carriers to compete in auctions and utilize a package bidding option, and small carriers’ lack of incentives to engage in package bidding—“can drastically skew an auction in favor of large bidders.”<sup>20</sup>

Package bidding diminishes smaller carriers’ ability to compete effectively. For example, in the spectrum auction context, the inability of smaller carriers to compete effectively may harm rural consumers because “package bidding would make it far less likely that the licenses will be awarded to small and regional carriers who, in contrast to the national carriers, typically concentrate their build-out efforts in rural and other underserved areas.”<sup>21</sup>

In Auction 903, the danger posed by package bidding for smaller carriers would be that sparsely populated unserved rural areas, which would be targeted for service by small and regional

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<sup>19</sup> See U.S. Cellular January 2014 Comments at 33. For example, the complexities of package bidding, which are discussed in the following section, can make the development and execution of package bids an expensive exercise, imposing costs that can be beyond the budgets of smaller carriers.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

carriers if they could compete successfully for support through individual bids, could be lumped into package bids by large carriers. Under the Commission's proposal, these package bids could cover eligible areas across an entire state. Although large carriers would be required to bring service to sparsely populated areas included in their package bids, within the 10-year support term for CAF-II, their incentive would be to put these areas at the end of the line, opting instead to first meet their build-out requirements by deploying in more heavily populated eligible areas.<sup>22</sup>

Thus, package bidding could have the effect of significantly delaying advanced broadband deployment in sparsely populated rural areas. Some of these areas may not receive any advanced broadband service, if the larger winning bidders opt to serve less than 100 percent of funded locations and refund a portion of their support.<sup>23</sup>

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<sup>22</sup> The Commission:

require[s] the entities authorized to receive Phase II auction support to complete construction and commercially offer service to 40 percent of the requisite number of locations in a state by the end of the third year of funding authorization, an additional 20 percent in the subsequent years, with 100 percent by the end of the sixth year.

*CAF-II Auction Order*, 31 FCC Rcd at 5964 (para. 40). The Commission further specifies that "compliance with the build-out obligations will be measured on a statewide basis." *Id.* at 5964 (para. 40, n.80). *See* Section 54.310(c) of the Commission's Rules, 47 C.F.R. § 54.310(c), indicating that "[c]ompliance [with CAF-II deployment obligations] shall be determined based on the total number of supported locations in a state."

<sup>23</sup> The Commission has provided that:

At the end of the support term, recipients that have deployed to at least 95 percent, but less than 100 percent, of the number of funded locations [in a state] will be required to refund support based on the number of funded locations left unserved in that state. The amount refunded will not be based on average support, but on one-half the average support for the top five percent of the highest cost funded locations nationwide.

*CAF-II Auction Order*, 31 FCC Rcd at 5966 (para. 45).

## 2. Package Bidding Would Introduce Unwarranted Complexity to the Auction 903 Bidding Process.

Package bidding will almost unavoidably make the bidding process complex and difficult to navigate, which is a particular problem for smaller carriers. In the spectrum auction context, the Commission has concluded that “[p]ackage bidding options generally complicate an auction[,]”<sup>24</sup> and has stated that “[c]ombinatorial bidding would ... add one more layer of complexity to implementing an auction.”<sup>25</sup>

As the Competitive Carriers Association has explained, package bidding can be especially problematic for smaller carriers because “[e]xcessive reliance on package bidding would bias the [600 MHz forward] auction in favor of larger carriers that have greater resources to manage the complexity entailed by such a process.”<sup>26</sup> In light of these concerns, the Commission decided “not ... to incorporate package bidding procedures into the [600 MHz] forward auction because of the additional complexity that package bidding would introduce into the auction.... We agree with

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<sup>24</sup> *Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions*, GN Docket No. 12-268, Notice of Proposed Rulemaking, 27 FCC Rcd 12357, 12378 (para. 62) (2012). The Commission did express the view, however, that “such complexity can be limited if certain restrictions apply to the ways bidders can group licenses.” *Id.* See *Auction of H Block Licenses in the 1915-1920 MHz and 1995-2000 MHz Bands Scheduled for January 14, 2014, Notice and Filing Requirements, Reserve Price, Minimum Opening Bids, Upfront Payments, and Other Procedures for Auction 96*, AU Docket No. 13-178, Public Notice, 28 FCC Rcd 13019, 13053-54 (paras. 131-133) (WTB 2013) (rejecting hierarchical package bidding and noting that “most [parties] oppose implementing any form of package bidding in Auction 96[,]” in part because package bidding would “add[ ] unnecessary complexity to the auction, which would be most felt by smaller bidders”).

<sup>25</sup> *Implementation of Section 309(j) of the Communications Act – Competitive Bidding*, PP Docket No. 93-253, Second Report and Order, 9 FCC Rcd 2348, 2366 (para. 102) (1994), *quoted in* U.S. Cellular January 2014 Comments at 40 n.183.

<sup>26</sup> Competitive Carriers Association (“CCA”) Comments, GN Docket No. 12-268, *et al.* (filed Jan. 9, 2014), at 7 (footnote omitted). See King Street Wireless, L.P., Comments, GN Docket No. 12-268, *et al.* (filed Jan. 9, 2014), at 9 (arguing that package bidding should not be used because it overly complicates the auction process).

small carriers that package bidding could bring unnecessary complexity into an already complex auction.”<sup>27</sup>

Package bidding “drastically increases the number of bid possibilities, which raises the cost for bidders to evaluate their options and probability of success[.]”<sup>28</sup> and it can also increase the length of auctions, which imposes costs on both bidders and the Commission.<sup>29</sup> As U.S. Cellular has explained, the complexity of “package bidding uniquely disadvantages smaller bidders who, unlike the national carriers, lack the resources required to cover the added costs created by package

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<sup>27</sup> *Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions*, GN Docket No. 12-268, Report and Order, 29 FCC Rcd 6567, 6777-78 (para. 510) (2014). See *Broadcast Incentive Auction Scheduled to Begin on March 29, 2016, Procedures for Competitive Bidding in Auction 1000, Including Initial Clearing Target Determination, Qualifying to Bid, and Bidding in Auctions 1001 (Reverse) and 1002 (Forward)*, AU Docket No. 14-252, *et al.*, Public Notice, 30 FCC Rcd 8975, 9075 (para. 208) (2015) (footnote omitted) (stating that the Commission would “not incorporate package bidding procedures into the forward auction because of the additional complexity such procedures would introduce into the auction”); Phil Goldstein, “FCC Bars Package Bidding in 600 MHz Auction, Dealing Another Blow to Verizon and AT&T,” FIERCEWIRELESS (June 4, 2014), accessed at <http://www.fiercewireless.com/wireless/fcc-bars-package-bidding-600-mhz-auction-dealing-another-blow-to-verizon-and-at-t> (reporting that “[p]ackage bidding would have permitted bidding on ‘all-or-nothing’ groups of licenses as well as on individual items within those groups. By prohibiting package bidding, the FCC is allowing smaller carriers to bid on licenses in rural areas without the possibility of larger carriers buying chunks of licenses grouped together. Thus, the FCC’s decision on package bidding represents another attempt by the agency to encourage smaller wireless carriers to participate in the 600 MHz auction.”).

<sup>28</sup> U.S. Cellular Reply Comments, GN Docket No. 13-185 (filed Oct. 28, 2013), at 46. See DeForest McDuff, *Analyzing Package Bidding in the FCC Auction No. 31: Upper 700 MHz Band* (May 6, 2003), at 9 (footnote omitted), accessed at <ftp://cramton.umd.edu/econ415/project-fcc-package-auctions.pdf>:

[An] issue raised by introducing package bidding is increased complexity. Consider a simultaneous ascending auction with  $n$  distinct items. Each bidder is restricted increasing the winning bid in exactly  $n$  different ways (by bidding higher on any of the  $n$  items). However, allowing package bidding with the same number of items increases the number of possible bids exponentially. With  $n$  items, a simultaneous ascending auction with package bidding generates  $(2^n - 1)$  possible packages on which to bid.

It is costly for bidders to evaluate such large numbers of package bids. The more packages the bidders have to consider, the more time and money they have to invest in valuing items. This may limit entry to the auction and give an advantage to large bidders.

<sup>29</sup> U.S. Cellular January 2014 Comments at 41.

bidding, including the need to hire game theorists to assist with the additional layer of auction complexity.”<sup>30</sup>

In the context of reverse auctions for universal service support, the Commission should strive for an auction design that emphasizes simplicity rather than complexity. As David McAdams, a professor at the Duke University Fuqua School of Business, observed in the Mobility Fund Phase I (“MF-I”) auction proceeding, “[i]n many currently unserved areas, small rural carriers may be best positioned to expand service. Such small carriers are at a natural disadvantage in any auction, given their relative lack of bidding expertise and resources to devote to bid preparation.”<sup>31</sup>

Professor McAdams concluded that, “[t]o attract such small players to the auction, the Commission ought to choose an auction design that is as simple as possible . . . .”<sup>32</sup> The Commission, heeding this advice, excluded package bidding from its MF-I auction design, finding that “[t]he absence of explicit package bidding simplifies the process of determining which bids will be awarded support, relative to the proposed bidder-defined option (that allows bidders to create packages of census blocks), and consequently, may simplify the bidding process.”<sup>33</sup>

Given that the Commission has expressed significant concerns regarding the efficacy of package bidding because of its inherent complexities, and the Commission has decided to refrain from using package bidding in reverse auctions for the award of universal service support, the Commission should reach the same conclusion here and not permit package bidding in Auction 903.

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<sup>30</sup> *Id.* (footnote omitted).

<sup>31</sup> Prof. David McAdams Reply Comments, AU Docket No. 12-25 (filed Mar. 7, 2012), at 5, *cited in Auction 901 Procedures Public Notice*, 12 FCC Rcd at 4762 (para. 134 n.203).

<sup>32</sup> *Id.*

<sup>33</sup> *Auction 901 Procedures Public Notice*, 12 FCC Rcd at 4763 (para. 137) (footnote omitted).

**B. If the Commission Adopts Package Bidding for Auction 903, It Should Require That Census Block Groups Included in a Package Bid Must Be Located in the Same County.**

If, however, the Commission decides to adopt package bidding procedures for the CAF-II auction, it should not permit package bidding on a statewide basis. Allowing package bids on a statewide basis, as proposed by the Commission,<sup>34</sup> would run too great a risk that smaller carriers will not be able to compete successfully for funding to serve targeted, sparsely populated rural areas, or will not participate in the auction altogether.

If the Commission were to adopt a package bidding option, a better approach would be to limit the scope of package bidding to counties.<sup>35</sup> As U.S. Cellular has previously argued in the Mobility Fund Phase II (“MF-II”) rulemaking proceeding,<sup>36</sup> limiting the scope of package bidding to counties in reverse auctions for universal service support would serve to curtail the ability of larger carriers to manipulate the auction, and would promote participation by smaller carriers.<sup>37</sup>

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<sup>34</sup> *Auction 903 Public Notice*, 32 FCC Rcd at 6264 (para. 91).

<sup>35</sup> There are 3,142 counties and county-equivalents in the United States. County-equivalents include Louisiana parishes, the District of Columbia, and independent cities in various states. Wikipedia, “County (United States),” accessed at [https://en.wikipedia.org/wiki/County\\_\(United\\_States\)#cite\\_note-PopEst\\_Counties-2](https://en.wikipedia.org/wiki/County_(United_States)#cite_note-PopEst_Counties-2). See FCC Areas, accessed at <https://transition.fcc.gov/bureaus/oet/info/maps/areas/data/2000/FCCNTY2K.txt> (listing counties, based on 2000 data).

<sup>36</sup> U.S. Cellular Comments, WC Docket No. 10-90, *et al.* (filed Jan. 18, 2012) (“U.S. Cellular January 2012 Comments”), at 37-38; U.S. Cellular Reply Comments, WC Docket No. 10-90, *et al.* (filed Feb. 17, 2012) (“U.S. Cellular February 2012 Reply”), at 30-31. See also Cellular South, Inc., d/b/a C Spire Wireless Comments at 26, *cited in* U.S. Cellular February 2012 Reply at 31 n.99 (expressing support for “limiting package bids to aggregations of geographic areas that are within the boundaries of a county”).

<sup>37</sup> U.S. Cellular notes that, prior to its advocacy in the MF-II proceeding for limiting package bidding to counties, it had argued in the MF-I auction proceeding that, if the Commission were to adopt a package bidding procedure, it should place the limit for package bidding at the Cellular Market Area (“CMA”) level because this would “be effective in curbing the ability of larger carriers to manipulate reverse auction outcomes to their advantage by packaging bids that cover extensive geographic areas.” U.S. Cellular Comments, WC Docket No. 10-90, *et al.* (filed Feb. 24, 2012), at 9 n.19. There are 734 CMAs, including those located in the U.S. Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands. FCC Areas, accessed at <http://wireless.fcc.gov/auctions/data/maps/CMA.pdf> (showing CMA map). Another party in the MF-I auction proceeding advocated the adoption of more stringent package bidding aggregation limits. See Blooston Rural Carriers Comments at 7 (arguing that packages should be limited to census tracts). The

Restricting package bids in Auction 903 to counties (as opposed to permitting statewide package bids) would better promote the ability of small rural wireline and wireless carriers to compete effectively in the CAF-II auction. On the other hand, allowing statewide package bidding in the CAF-II auction would likely depress participation by smaller carriers concluding that their ability to bid successfully to serve targeted, sparsely populated census block groups would be diminished if larger carriers were permitted to offer statewide package bids.<sup>38</sup> This disincentive for smaller carriers' participation would be avoided by limiting the scope of package bidding to counties.

Such a limitation of the scope of package bidding also would likely harmonize with the business plans of small rural wireline and wireless carriers that tend to compete on a local basis. These carriers could realistically consider package bidding on a county basis, while the option of statewide package bidding would provide advantages to larger carriers with no discernable utility for smaller carriers.<sup>39</sup>

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Commission did not include package bidding procedures in its MF-I auction design, instead adopting a predefined aggregation approach, which grouped eligible census blocks by census tract, allowing bidders to bid for support for the eligible census blocks in a census tract, not on individual blocks. *See Auction 901 Procedures Public Notice*, 12 FCC Rcd at 4762-63 (para. 135).

Although U.S. Cellular believes that the use of CMAs would help to minimize larger carriers' opportunities to capitalize on package bidding in Auction 903 as a means of manipulating auction outcomes, it also believes that, as it argued in the MF-II rulemaking proceeding, the use of a narrower restriction would be effective in encouraging participation by a greater number of smaller carriers. In Auction 903, this effect of a county restriction would be advantageous for both small rural wireline and wireless carriers.

<sup>38</sup> U.S. Cellular January 2012 Comments at 38 (arguing that permitting package bidding without limiting its scope to counties would make it difficult for small rural carriers and regional carriers to overcome any manipulative bidding strategies that could be pursued by larger carriers, placing them at a competitive disadvantage in the MF-II auction).

<sup>39</sup> *Id.* (arguing that "[t]he absence of [a county] limitation could further enhance the ability of larger carriers to manipulate reverse auction outcomes to their advantage by packaging bids that cover extensive geographic areas").

Permitting statewide package bidding in Auction 903 could delay consumers' access to advanced broadband in some small towns and rural communities, or deprive these consumers of any access to advanced broadband in the foreseeable future.<sup>40</sup> Limiting package bidding to counties could help to mitigate this outcome.

Finally, funding would be used more efficiently and effectively in Auction 903 if smaller carriers are given a realistic opportunity to compete for, and obtain, support allocations to serve targeted, sparsely populated areas, where advanced broadband deployment might otherwise be delayed or not occur at all. Limiting package bidding to counties would provide this opportunity to a greater degree than permitting statewide package bidding.

### **III. CONCLUSION.**

The Commission should not include a package bidding option in its Connect America Fund Phase II auction design, because it would undercut the ability of small rural and regional carriers to compete in the auction, and the complexities of package bidding procedures would further discourage small rural wireline and wireless carriers from participating.

If, however, the Commission were to decide to include a package bidding option in Auction 903, then U.S. Cellular respectfully suggests that the Commission should require that all census block groups included in a package bid must be located in the same county. This limitation, in contrast to the statewide package bidding proposed by the Commission, would avoid the risk that

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<sup>40</sup> See the discussion in Section II.A.1., *supra*.

small rural wireline and wireless carriers will be unfairly disadvantaged in Auction 903 or will not participate altogether.

Respectfully submitted,

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