Mr. Peter Hill June 15, 2009

Director

Spectrum Management Operations

Industry Canada

300 Slater Street

Ottawa, Ontario

K1A 0C8

Dear Mr. Hill,

The following are the comments of the Canadian Independent Telephone Company Joint Task Force (the Task Force) in reply to Canada Gazette Part I, Notice DGRB-001-09 – *Consultation on Revisions to the Framework for Spectrum Auctions in Canada* (the Notice) dated April 2, 2009.

A list of the Task Force members is attached. The Task Force members include the membership of l'Association des Compagnies de Téléphone du Québec, the Canadian Alliance of Publicly-owned Telecommunications Systems and the Ontario Telecommunications Association.

The Task Force commends the Department for its efforts to balance the many and often competing viewpoints that constitute the public interest. The Notice provides a very good basis for an enlightened discussion regarding the framework for spectrum auction.

Our comments are provided in the order that topics appear in the Notice.

1.Types of Auctions

The Task Force notes the Department's comments regarding the attributes of simultaneous multiple-round ascending (SMRA) auctions and agrees that they are efficient both economically and in the assignment of many licences. While it may be that certain bidders may find it difficult to assemble packages of licences that best meet their individual business plan in a SMRA, the Task Force would point out that an approach that favours packages will work to the detriment of smaller operators who do not have the resources nor the intention to participate in larger regional or national markets.

In addition, it seems worthwhile to mention that difficulties in packaging assets are a common challenge in competitive markets (e.g. real estate) and that to construct an auction model aimed at facilitating packaging could well run counter to the Department's first enabling guideline: *Market forces should be relied upon to the maximum extent possible (p.2. DGRB 001-09).*

As regards sealed-bid (both first and second price) auctions, the Task Force believes these might be useful in auctions for spectrum that is not highly and widely contested such as pockets of previously unassigned spectrum or specialty allocations (e.g. air-to-ground). Using sealed-bid auctions for very popular, general use spectrum with the resultant loss of the opportunity for price discovery would seem fraught with the possibility of significant price distortions in high stakes auctions (e.g. $4.5 Billion in the AWS auction).

2. Auction attributes

With regard to combinatorial or package bidding, the Task Force refers to its comments above in section 1 and the inherent difficulties of such approaches for operators wanting to provide service to customers in local as opposed to larger regional or national markets.

The Task Force agrees with the Department in its description of the benefits of anonymous bidding and is generally supportive of such an approach.

3. Selecting the Appropriate Auction Format

The Task Force notes and encourages the Department's stated intention to continue to explore auction formats and attributes and looks forward to participating in the consultations specific to each future auction.

4. Licence Renewal

The Task Force supports the Department's general approach of 10-year licence terms with a high expectation of renewal for a further 10-year term. As identified in the Notice, such an approach provides for a stable investment climate.

As regards implementation requirements for any new services, the Task Force also agrees that such conditions of licence should limit attempts to access spectrum for purposes of speculation or warehousing.

5. Licence Fees

The Department is proposing the introduction of fees for renewed licences based on an estimation of market value at that time. The Task Force believes that if fees are to be considered at renewal, they should only be so after the expiration of the second 10-year term.

The Department has already signified its preference for an initial 10-year term with a further 10-year high expectation of renewal; the Department has also appropriately identified the need for a stable investment climate.

If an auction participant is to bid large sums based on this combination of initial and subsequent 10-year terms, it would seem inappropriate to insert halfway through the 20-year period, the possibility of unknown additional costs. Not only would this contribute to a more fragile investment climate, it would also reduce the attractiveness of the spectrum and the probability of customers enjoying access to its benefits.

6. Research and Development (R&D)

The Task Force notes and concurs with the Department's assessment of the high level of investment in the wireless industry, that it is manufacturers who most often undertake R&D expenditures and that the largest licensees have on average exceeded the 2% RD requirement.

In addition, the reference to the *Telecommunications Policy Review Panel Final Report* and the *OECD Telecommunications Regulatory Institutional Structures and Responsibilities* reports adds further weight to the Task Force's position that R&D conditions of licence should be discontinued.

7. Tier Areas for Spectrum Licensing

The Task Force has done considerable work in assessing the opportunity of bidding for future licences using a Tier 4 approach or one that separates urban areas within a Tier 4 geographic area from its rural areas.

While the latter approach does present the advantage of reducing the size of the territory and the resultant cost of bidding, it has the disadvantage of reducing the market size that can be put to contribution to recoup large one-time infrastructure investments (cell sites, switches, etc.).

On balance, the Task Force considers that the Tier 4 approach provides a reasonable balance between auction and infrastructure costs as well as a realistic possibility of developing an economically viable business case.

At the same time, however, the Task Force hastens to add that the Tier 4 option must be available. Our observation of the results of the recent Advanced Wireless Services, where Tier 3 areas were the smallest area available for bidding, leads us to conclude that such an approach disenfranchises local operators such as the members of the Task Force, to the detriment of vibrant competition in rural markets and with resultant negative effects on customer choice.

The Task Force thanks the Department for its consideration of these comments.

Yours sincerely,

ACTQ
Association des Compagnies de Téléphone du Québec

CAPTS

Ontario Telecommunications Association

Peter Barnes

on behalf of the Task Force

Encl.

Member Companies

Amtelecom Limited Partnership

Brooke Telecom

Bruce Telecom

City West Cable & Telephone

Cochrane Telecom Services

CoopTel, coop de Télécommunication

Dryden Municipal Telephone System

ExecuLink Telecom Inc.

Gosfield North Communications Co-operative

Hay Communications Co-operative

Huron Telecommunication Co-operative

La Compagnie de Téléphone de Courcelles

La Compagnie de Téléphone de Lambton

La Compagnie de Téléphone de St-Victor

La Compagnie de Téléphone de Upton

Landsdowne Rural Telephone Co. Ltd

Le Téléphone de St-Ephrem

Mornington Communications Co-operative

Nexicom Telecommunications Inc

Nexicom Telephones Inc.

North Frontenac Telephone Corp.

North Renfrew Telephone Company

Ontera

People's Tel Limited Partnership

Quadro Communications Co-operative

Roxborough Telephone Company

Sogetel

TBay Tel

Téléphone Guèvremont

Téléphone de Warwick

Tuckersmith Communications Co-operative

Wightman Telecom Ltd

WTC Communications