



July 25, 2012

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Spectrum Auctions
Industry Canada
300 Slater Street
Ottawa, Ontario K1A 0C8

Dear Sir/Madam:

Re: *Canada Gazette, Part I, May 5 2012, Notice No. DGSO-002-12 – Consultation on a Licensing Framework for Mobile Broadband Services (MBS) – 700 MHz Band – Eastlink’s reply comments*

Please find attached the reply comments of Bragg Communications Inc., carrying on business as Eastlink (“Eastlink”), in response to Canada Gazette Notice DGSO-002-12, *Consultation on a Licensing Framework for Mobile Broadband Services (MBS) – 700 MHz Band* (Part I, 5 May 2012).

We appreciate the opportunity to provide our views to the Department.

Sincerely,

A handwritten signature in blue ink, appearing to read "D Heckbert", is written over a light blue circular stamp.

Denise Heckbert
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INDUSTRY CANADA
CONSULTATION ON A LICENSING FRAMEWORK FOR
MOBILE BROADBAND SERVICES (MBS) – 700 MHz BAND
CANADA GAZETTE, PART I, MAY 5, 2012 (DGSO-002-12)

REPLY COMMENTS OF
BRAGG COMMUNICATIONS INC., OPERATING AS EASTLINK



25 JULY 2012

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1. Bragg Communications Inc., carrying on business as Eastlink (“Eastlink”), appreciates the opportunity to provide reply comments on the issues raised under DGSO-002-12 – *Consultation on a Licensing Framework for Mobile Broadband (MBS) – 700 MHz Band* (the “Consultation”). Eastlink has obtained comments submitted by wireless service providers and other interveners under this consultation. Eastlink submits that our failure to address any part of the consultation document or to respond to any comments submitted by the other parties does not constitute agreement where such agreement would be contrary to our business interests. Eastlink herein provides our reply comments.
2. Under the Consultation, Industry Canada (the “Department”) seeks comments on its proposed auction format, bidder participation, the conditions of licence and the auction process.
3. Eastlink submitted in our comments, dated June 25, 2012, that we could not find a link between the policy objectives for this 700 MHz spectrum and the proposed auction framework. Specifically, we noted that regional wireless players – those most likely to invest heavily in rural areas – are severely disadvantaged under the auction format as proposed. As a result, the Department’s goals of sustaining wireless services competition and in bringing that competition to rural markets would be put at considerable risk.
4. Eastlink reiterates that this 700 MHz spectrum, because of its propagation characteristics, is the last opportunity to encourage competition in rural areas comparable to that the Department supported in urban areas under the 2008 Advanced Wireless Services (“AWS”) spectrum auction. The incumbent wireless service providers already control nearly all the comparable 850 MHz spectrum, which they can use to efficiently build into rural areas. As a result, it is absolutely critical that regional service providers have access to the limited amount of available 700 MHz spectrum.
5. At the same time, given that the Department has refrained from regulating domestic wholesale roaming rates such that rates continue to be commercially unreasonable (as outlined in Eastlink’s comments under DGSO-001-12 *Proposed revisions to the frameworks for mandatory roaming and antenna tower and site sharing*), regional and new entrant

wireless service providers further need this spectrum to provide affordable out-of-local calling area roaming to our urban subscribers without having to rely on other carriers' networks.

6. Finally, the Department has decided against a set-aside mechanism for this spectrum auction despite the success such a mechanism had in encouraging competition under the AWS auction. As a result, there is no guarantee under existing frameworks that regional wireless players will be able to access the spectrum we need to efficiently roll-out our networks into rural areas. It is critical that regional players not be further disadvantaged by the auction framework.
7. Unfortunately, the Combinatorial Clock Auction ("CCA") format as proposed heavily favours national service providers, i.e., Bell, Telus, Rogers and Wind. The framework is extremely complex by world comparisons making it difficult to model possible outcomes but it is clear that, as the proposed framework always favours the "highest value package," national service providers, including national new entrant service providers, will always take priority over regional providers, i.e., Eastlink, Videotron, MTS and SaskTel. As a result, it is possible that regional wireless service providers could walk away from the auction with no 700 MHz spectrum at all.
8. Eastlink notes that the likely shut-out of regional wireless service providers from the 700 MHz auction is not because of an unwillingness to pay market prices for regional licences, or that the regional players value regional licenses less than national players, but rather because the proposed CCA framework allows national providers to secure regional licenses in which they may have minimal interest by virtue of the sheer size of their aggregate package bid, as described in more detail herein.

Auction format to be reconsidered

9. Eastlink submits that the auction framework as proposed is extremely complex by world comparisons making it difficult to model possible outcomes and to determine whether license values will support a business case. Eastlink understands that the Department has invested time and effort in the proposed CCA auction format. Nevertheless, Eastlink submits that the Department's efforts should not prevent it from heeding concerns expressed by most participating parties under the Consultation and returning to an auction format more suitable to Canada's expansive geography and telecommunications market, which relies

heavily on regional operators to provide competition and quality services to both urban and rural areas.

10. Eastlink submits that the Department should:

- Choose an anonymous SMRA format for this important 700 MHz spectrum auction
- Or, if it is to be a CCA format, demonstrate how this auction format supports the policy objectives of sustaining urban competition and encouraging rural competition, i.e., demonstrate how a regional service provider could access the spectrum it requires, and account for total population and population density of licence areas when valuing a package.
- Not allow large, incumbent associated entities to bid under separate caps.

Until these clarifications are provided, Eastlink cannot endorse the proposed CCA framework proposed by the Department. Eastlink provides further detail and requests for clarification below.

Return to SMRA

11. Eastlink submits that the CCA format is significantly more complex than the Australian auction, which will be the first to use this methodology in an auction involving multiple regions. The proposed format's preference for the highest value package, which would always belong to a national service provider as described herein, makes this format particularly ill-suited to Canada's wireless market as it completely disregards the important role regional service providers play in providing service to rural areas of Canada.

12. For example, Eastlink started operating as a small cable services provider in rural Nova Scotia. We have since grown into one Top 20 market – Halifax – but remain primarily a rural services provider offering competitive and advanced cable, Internet and local phone service in many rural and remote communities. Contrary to Telus' claim in its comments, dated June 25, 2012, Eastlink is currently building an extensive network in the Maritimes that will allow us to provide advanced wireless services to communities other carriers may not be interested in serving. Indeed, even as Eastlink prepares to launch our wireless service, we already have many times the number of sites Telus has deployed in Nova Scotia despite Telus having owned its spectrum for many years. Unfortunately, regional service providers

are not likely to secure needed spectrum under the proposed framework. Eastlink is not alone in this assessment.

13. Quebecor stated in Paragraph 18 of its comments, dated 25 June 2012, “An auction framework cannot properly serve the public interest if it contains biases or erects barriers against the full and effective participation of some categories of bidders.” Quebecor then stated that its primary concern with the CCA auction format was that it did not accommodate regional players. Specifically, in Paragraph 19, “We are particularly concerned that the proposed bidding rules for the supplementary round create a situation where small regional carriers are at a structural disadvantage to large national carriers in their efforts to secure their final clock packages.”
14. For its part, MTS Allstream noted the Department’s previous intention to provide both regional and national providers with access to spectrum and stated, “Despite this objective, it appears that the auction format and rules for the 700 MHz auction, as currently proposed, favour large, national bidders interested in winning large packages over smaller, regional bidders, including new entrants, interested in specific licences.” (Paragraph 4)
15. Finally, SaskTel stated in its June 25, 2012 comments, “SaskTel disagrees with the use of the CCA format. SaskTel believes that the proposed format is overly complex, not transparent and discriminatory against regional players.” (Paragraph 21)
16. These concerns that regional players are disadvantaged under the framework to the point of being excluded are rooted firmly in the mathematical realities of the CCA format as proposed. There are four blocks of prime spectrum available in each licence area under this auction. As there are no set-asides in this auction, and despite the spectrum caps the Department has established, the Big Three incumbents (public companies Bell, Telus and Rogers) will likely outbid regional players and new entrants for three of the prime spectrum blocks, as well as the spectrum blocks not subject to the cap. As a result, all regional players and new entrants will be fighting for the one remaining prime spectrum block and whatever uncapped licences the Big Three have determined are not valuable.
17. This situation is already contrary to the policy direction for this 700 MHz spectrum as it guarantees that the Big Three will maintain their stranglehold on sub-1 GHz spectrum. The result for regional players is made worse by the uncertainty of the supplementary round of the CCA and the preference for the “highest value package” under the allocation

mechanism, which will favour national new entrants over regional service providers. Any national new entrant whose package includes Southern Ontario will have a higher value package than that of a regional service provider only interested in its discrete region. As a result, the national new entrant will scoop up the remaining prime spectrum block and whatever other scraps the Big Three left behind, and the regional player – the carrier most likely to build extensively into rural areas in its licence area – will be left empty handed.

18. It is worth noting that Wind was alone among AWS new entrants to support the use of a CCA format rather than an SMRA or anonymous SMRA format. While MTS, SaskTel, Quebecor and Eastlink all expressed concerns about the disadvantages for regional service providers under the proposed CCA format, Wind indicated no preference for an SMRA format, instead expressing general support for CCA. Wind is the sole new entrant supporter of a CCA framework because, as a national service provider, Wind stands to gain from the proposed format. Eastlink submits that Wind's support further confirms the obvious bias for national service providers under the proposed framework.
19. Eastlink asked the Department in our comments to provide an example of how regional players could successfully secure its desired package despite the inherent bias for national packages. The Department has not provided an example and, therefore, Eastlink is concerned that no such example exists. Instead, Eastlink submits examples of our own. Consider an auction where the package options for bidding are to either bid on a licence for Iceland, or bid on a package for the entire world, including Iceland. In this auction, the highest value package will win. The fact is that no carrier interested only in Iceland would stand a chance of winning its desired spectrum. The same is true when considering a package for all ten provinces, or even eight of the ten provinces, compared to a package for the Maritimes. No bidder interested only in the Maritimes stands a chance of winning its package under the CCA auction format as proposed.
20. Eastlink submits that the only way to overcome the overwhelming bias for national service providers under this auction is to return to an SMRA format. Eastlink submits that Telus, SaskTel, Quebecor and Mobilicity all either requested a return to SMRA or stated that CCA was poorly suited to Canada and, in any case, did not adequately address the Department's concerns about the SMRA format.

21. Eastlink submits that, rather than continue with this overly complex, biased and unfair proposed format, it is in the public interest and is consistent with the policy objectives to return to an SMRA format. Eastlink submits that an anonymous SMRA format would address all of the Department's concerns but would allow regional service providers a chance to acquire the 700 MHz spectrum we need for efficient rural deployment.

22. Specifically, an anonymous SMRA format:

- Would reduce gaming opportunities as the real opportunity for tactical bidding is made possible by knowing the identity of the other auction participants. In an anonymous auction, the opportunity is eliminated. Anonymity makes a tactical bidding strategy riskier and is likely to encourage earnest bidding. In any case, there are tactical bidding opportunities in every auction format. Reducing the gaming risk in one particular format should not come at the cost of an overly complex and unfair framework.
- Exposure risk would be minimal under an anonymous SMRA format as bidders are able to bid on whatever licences they want and can always withdraw their bids in the event that they are not winning their desired group of licences. In any case, Eastlink submits that the exposure risk for regional players is far greater under the CCA format than the exposure risk for national service providers under the SMRA format. National players are free to bid only on the licences they want under SMRA, so they can manage their own exposure risk, whereas it is likely that regional service providers will pay to participate in the CCA auction and walk away with nothing.
- Auction length would also be addressed by an anonymous SMRA format as the tactical bidding opportunities would be reduced, so bidders would focus on their final licences sooner. Eastlink submits that the clock rounds, supplementary round, allocation round and assignment rounds of the CCA format are not going to encourage a quick auction. Eastlink further submits that any potential time savings benefits in the CCA format compared to an anonymous SMRA would be entirely offset by the risk for regional service providers and the complexity of the CCA format.

23. Finally, Eastlink submits that the Department and all auction participants could avoid substantial auction preparation and participation expenses through use of an anonymous SMRA format. The Department would need to hold fewer information sessions and mock

auctions as carriers are all familiar with the SMRA format, and individual bidders could reduce their current efforts to participate in the complex CCA format. Simply put, a return to SMRA is in everyone's interest. Eastlink understands that the Department was attempting to modernize our auction approach but the CCA format is not appropriate for a country like Canada characterized by multiple geographic service areas and regional wireless service providers.

CCA format needs major fixes

24. In the event that the Department decides to press ahead with the CCA format, Eastlink submits that it is critical that the Department adjust the framework to account for the severe disadvantage to regional service providers under the auction format as proposed.

Allocation stage barriers

25. As Eastlink described above, the auction framework's preference for the highest value package will all but prevent regional service providers from securing 700 MHz spectrum unless the Department reconsiders how it "values" bids under the allocation stage. Specifically, the Department should modify its approach to package valuation so that it accurately reflects bidders' willingness to pay for each discreet licence area. Such an approach would ensure that market prices are paid for each licence and will further ensure that only bidders committed to deploying advanced services throughout a licence area will acquire the spectrum.

26. The concerns of the regional wireless operators related to the CCA can be highlighted through a simplified example. **To provide the proper context, the bid amounts in the example below are the winning bids for each region from the 2008 Canadian AWS auction.**

27. Assume that Canada has just three bidders for two licence areas – Southern Ontario (which includes Toronto) and Nova Scotia & PEI. Assume that Bidder 1 bids \$1.5 billion for Southern Ontario, Bidder 2 bids \$60 million for Nova Scotia & PEI, and Bidder 3 bids \$1.57 billion for the package of Southern Ontario ("SO") and Nova Scotia & PEI ("NS"). Bidders 1

and 2 can be characterized as regional bidders while Bidder 3 can be interpreted as a national bidder. These bids are summarized as follows:

Service Area	Bidders		
	1	2	3
Southern Ontario	\$ 1,500,000,000		} \$ 1,570,000,000
Nova Scotia		\$ 60,000,000	

28. In the proposed auction framework, Bidder 3 would win the licenses for both SO and NS as their package bid (\$1.57 billion) exceeds that of both Bidder 1 and Bidder 2 (\$1.5 billion + \$60 million = \$1.56 billion).

29. The flaws in the CCA process, particularly as they relate to regional wireless operators, become apparent when we attempt to disaggregate the individual license bids. While the internal values of each license are not disclosed publically, Bidder 3 must assess its value of each license separately in formulating its bid. Understanding how Bidder 3 may value the SO and NS licenses independently illustrates the deficiencies in the CCA format and the bias against regional wireless service providers.

30. Assume that Bidder 3's total bid of \$1.57 billion for the SO and NS licenses can be allocated under the scenarios (A, B & C), as follows:

Bidder 3's Internal License Value Allocation

Service Area	Scenario		
	A	B	C
Southern Ontario	\$ 1,505,000,000	\$ 1,550,000,000	\$ 1,490,000,000
Nova Scotia	\$ 65,000,000	\$ 20,000,000	\$ 80,000,000
Total	\$ 1,570,000,000	\$ 1,570,000,000	\$ 1,570,000,000

31. Under Scenario A, it is clear that Bidder 3 earned the licenses for SO and NS. Its individual allocation of \$1.505 billion exceeds the value Bidder 1 had of \$1.5 billion for the SO license, and its internal valuation of \$65 million exceeds Bidder 2's value of \$60 million for the NS license.

32. Under Scenario B, Bidder 3’s value of the SO license of \$1.550 billion exceeds the value Bidder 1 had of \$1.5 billion for the SO license. Its internal valuation of \$20 million for the NS license, however, is significantly less than Bidder 2’s value of \$60 million. Under Scenario B, the Department would maximize the value of the licenses by accepting Bidder 3’s value for SO of \$1.550 billion and Bidder 2’s value for NS of \$60 million.

33. Similarly, under Scenario C, Bidder 3’s value of the SO license of \$1.49 billion is less than Bidder 1’s value of \$1.5 billion. Bidder 3’s internal valuation of \$80 million for the NS license is more than Bidder 2’s value of \$60 million. The Department would therefore maximize the value of the licenses by accepting Bidder 1’s value for SO of \$1.5 billion and Bidder 3’s value for NS of \$80 million. A summary of the value maximizing license allocations is as follows:

Value Maximizing License Allocation

<u>Service Area</u>	<u>Scenario A</u>		<u>Scenario B</u>		<u>Scenario C</u>	
	<u>Value</u>	<u>Bidder</u>	<u>Value</u>	<u>Bidder</u>	<u>Value</u>	<u>Bidder</u>
Southern Ontario	\$ 1,505,000,000	Bidder 3	\$ 1,550,000,000	Bidder 3	\$ 1,500,000,000	Bidder 1
Nova Scotia	\$ 65,000,000	Bidder 3	\$ 60,000,000	Bidder 2	\$ 80,000,000	Bidder 3
Total	\$ 1,570,000,000		\$ 1,610,000,000		\$ 1,580,000,000	
Value in Excess of Package Bid	\$ -		\$ 40,000,000		\$ 10,000,000	

34. The problem with the CCA format is that it is designed to maximize the value of a package of licenses rather than individual licenses. Bidder 3 would be allowed to acquire spectrum in NS, outside its core market and which it may have no intention of actually developing, for less than Bidder 2, which needs the spectrum to serve its core market including rural areas, was willing to pay. This is an inherently undesirable result the licence has been undervalued and, more importantly, the spectrum is likely to remain unused so that Canadian consumers are denied the benefits of the 700 MHz spectrum.

35. The example becomes even more alarming if we add a third region of Northern Quebec and a fourth Bidder. Again using the approximate winning bids for each region from the 2008 AWS auction, assume that Bidder 3 now includes Northern Quebec (“NQ”) in their package, but maintains its bid of \$1.57 billion. This can be summarized as follows:

Service Area	Bidders			
	1	2	3	4
Southern Ontario	\$ 1,500,000,000			
Nova Scotia		\$ 60,000,000	\$ 1,570,000,000	
Northern Quebec				

36. Under the proposed CCA framework, Bidder 3 will win the licenses for both SO, NS and NQ as their package bid (\$1.57 billion) exceeds that of both Bidder 1, Bidder 2 and Bidder 4 (\$1.5 billion + \$60 million + \$7 million = \$1.567 billion). Essentially, without increasing its bid, the weight of Bidder 3's value in the Southern Ontario licenses allowed it to secure Northern Quebec with no incremental addition to its package bid. Bidder 4 values the NQ license at \$7 million, while Bidder 3 has no value for the NQ license, but because of the relative weight of its package bid, is able to get NQ for free.
37. Eastlink further submits that this simplified example illustrates how regional service providers are discriminated against under the proposed CCA format but does not fully capture the scope of this problem. Specifically, the exact same scenario described could apply to a situation where Bidder 3 is interested primarily in British Columbia, Alberta and Southern Ontario, and is able to get NS for free. The fact is that all smaller licence areas can be easily tacked onto larger package bids under the proposed CCA format to the detriment of regional service providers.
38. These examples, while simplified, are emblematic of the legitimate and serious concerns that regional players have regarding the CCA framework. National wireless operators, by virtue of the size of the package bids necessary to the lucrative Southern Ontario market, will most likely be able to secure smaller regions, such as the Maritimes, with limited incremental bidding. This is precisely why the national players (Bell, Telus, Rogers and Wind) generally support the CCA format, while the regional players cannot support the CCA format.
39. The proposed CCA framework puts value on the highest package dollar value but it most certainly does not maximize the regional or rural value. Under the proposed framework, regional licenses will not be awarded to those who value the spectrum the most and are most likely to build advanced networks in rural areas – regional wireless operators. Eastlink reiterates that regional operators play an important role in Canada's telecommunications

and television services markets, and are consistently the most invested in remote and rural communities. Eastlink submits that the only way to ensure that regional service providers have a practical opportunity to acquire spectrum under this auction is to return to an anonymous SMRA format.

40. Eastlink reiterates that this 700 MHz spectrum is the last chance for rural communities to be efficiently and effectively provided with advanced wireless services. Regional operators are the service providers that will provide these advanced services and that have a track record of doing so. Regional operators have built and continue to expand their networks throughout the rural areas in their regions. For example, Eastlink is the only operator in our territory to have built advanced wireless services into rural areas.

Critical issues

41. Eastlink submits that it is critical that the Department address the flaw in the CCA format that would see these regional service providers denied a reasonable opportunity to acquire 700 MHz spectrum if it intends to use CCA rather than an anonymous SMRA format.
42. Eastlink submits that the problem can be approached by reconsidering two critical issues related to how licences within a package are valued. The first issue is one of total population. The licences in Southern Ontario and Quebec will provide the Department with more revenue than the licences in the Maritimes or Northern Ontario. The bidders who win those Ontario and Quebec licences, however, will also be able to earn greater financial returns, even with only a small network build, because of the large populations in those licence areas. The second issue is one of population density. It costs far more to serve 100,000 people in Nova Scotia than it does in southern Ontario. These post-auction costs, and the public interest served by building out less populated areas, should be considered in determining which is the “highest value” package under the allocation round.
43. Therefore, Eastlink submits that the dollar value of a package must be adjusted for both population density and the total population of each licence area included in the package. We note that regional players would still be disadvantaged under such a package valuation methodology as regional operators would still be bidding only on a limited number of licences compared to national players. However, such an adjustment would at least provide regional bidders with a more equitable opportunity to acquire the spectrum we require for our network development and for which we are willing to pay more than other bidders.

Supplementary round

44. Eastlink reiterates our concern that the outcomes of the clock rounds can too easily be overturned by further bids made in the supplementary bids round. Eastlink submits that this uncertainty poses considerable risk for regional operators.

45. Eastlink further reiterates that the flexibility afforded large national incumbents in the supplementary round, simply by substantially increasing their bids, puts regional service providers at a considerable disadvantage. The Department had indicated that it would be possible for a bidder to “guarantee” its final clock package by substantially increasing its bid but this would be more difficult for a regional provider which would have fewer resources available to make such a large bid in the supplementary round. In any case, the Department has since made clear that even a large increase in bid price would not guarantee the regional provider its final clock package. There appears to be no certainty for regional service providers that earnest bidding throughout the clock rounds will result in securing the desired package in the supplementary round.

46. MTS, Quebecor and SaskTel all expressed similar concerns in their June 25, 2012 comments. Specifically, Eastlink agrees with Quebecor’s comment, “Stated another way, one cannot claim that the purpose of the clock stage is to permit price and allocation discovery, then accept a situation where the final auction outcome is radically different from the final clock result.” (Paragraph 49)

47. To help address this risk, Eastlink reiterates our request that there be no supplementary round if all spectrum is allocated in the final clock round. In cases where there would be a supplementary round, Eastlink submits that bidders require a significant amount of clarification on the supplementary round and that the Department should endeavour to introduce some certainty.

Assignment process

48. Eastlink also submits that, given the 14 licence areas in Canada will have dramatically different valuations, it is unclear how the assignment round will be conducted. We reiterate our request that the Department clarify this assignment process.

Bidder participation – affiliated and associated entities

49. Eastlink reiterates our comment that the Department's proposed policies regarding associated entities do not sufficiently limit bidder participation. In particular, the proposed policies do not adequately address the fact that Bell and Telus may be permitted to participate in the auction process under separate caps.
50. Eastlink provided further detail on our concerns regarding the Bell-Telus arrangement in our June 25th comments, so we will not reiterate them here. We submit that it is clear Bell and Telus do not compete with each other on the same terms that they compete with other carriers, such as Rogers Wireless or new entrants, and that they will not be competing with each other during the auction. Indeed, Eastlink submits that the AWS auction results (attached to these reply comments as Appendix "A") illustrate a high level of cooperation between Bell and Telus under that auction. It is certain that Bell and Telus will work cooperatively again under this 700 MHz auction, ensuring that their combined result at the end of the auction is two contiguous blocks of prime spectrum across all of Canada.
51. Eastlink agrees with Rogers' June 25, 2012 comments that allowing Bell and Telus to bid under separate caps, under the relaxed collusion policies, would "allow a level of cooperation by bidders in a spectrum auction never witnessed before in Canada or anywhere else in the world." (Paragraph 110) Eastlink submits that it was not the Department's intention under the policy and technical framework for this 700 MHz spectrum to allow two large national incumbents to secure half of the prime spectrum, especially considering that these two incumbents already control the majority of the comparable 850 MHz spectrum.
52. Furthermore, allowing Bell and Telus to acquire contiguous prime blocks in this auction would provide Bell and Telus with a singular advantage over all other Canadian service providers in that they would have 10 MHz + 10MHz in the 700 MHz band while all other carriers would have only 5 MHz + 5 MHz. Should the Department allow Bell and Telus to bid under separate caps, it would be conferring on one network entity an advantage not available to other network entities.
53. Eastlink further notes that allowing Bell and Telus this unprecedented and unfair advantage in the auction will not encourage new network sharing arrangements that the Department

indicated it is interested in supporting. Rather, allowing Bell and Telus such an advantage promotes tacit and outright collusion, solidifies their control of the sub-1GHz spectrum and their monopoly over rural networks.

54. Instead, Eastlink submits that Bell and Telus must be required to bid under one cap.

Conditions of licence

55. Eastlink continues to generally support the Department's proposed conditions of licence with a few exceptions as described below.

Lawful intercept

56. The Department's proposed change to the lawful intercept COL would impose substantial new obligations on licensees, at a time when parallel legislation addressing similar areas of licensees' operations is before Parliament. Eastlink submits that such new changes would be more appropriately made via federal legislation, or the pending revision to the Solicitor General's standards that Public Safety Canada is proposing. Eastlink agrees with the comments submitted by the Canadian Wireless Telecommunications Association on this issue and we further agree with the CWTA's suggestion that the current condition of licence remain in place until the legislative work currently underway is completed.

Rural and general deployment

57. Eastlink submits that that rural deployment condition of licence as proposed by the Department is unlikely to encourage rural deployment. Eastlink submits that true rural deployment will only be realized by enforcing smaller tier roll-out requirements. Eastlink submits that all licensees in the 700 MHz band should be required to cover 50% of the population in each Tier 4 area included within the licence area within 10 years. Such a requirement would ensure that all regions within a spectrum licence area benefit from the coverage and products available on the 700 MHz band. For example, adopting Tier 4 coverage requirements would ensure in the Nova Scotia & PEI licence area that the focus would not be only on the Halifax urban area but rather on eight predominantly rural towns in Nova Scotia and PEI. At the same time, the propagation characteristics of the band will

allow licensees to meet this obligation with a limited infrastructure build out, so that this would not be an economically unreasonable requirement.

Opening bids

58. Eastlink maintains that the proposed opening bid amounts for service areas in Atlantic Canada and other primarily rural regions are disproportionately high and must be reduced to encourage rural wireless deployment and promote sustainable wireless competition.
59. Eastlink submits that despite the Department's efforts to bridge the gap between urban and rural deployment, some changes are required to properly reflect the population differences. Eastlink disagrees with the Department's proposal to base pricing on the Cellular and PCS annual fees as the auctions for Cellular and PCS were completed some ago through a very different process.
60. Rather, Eastlink reiterates that a more appropriate proxy for market values of the opening bid prices is the recent Canadian AWS auction. Specifically, AWS \$/MHz/pop values are a better proxy than future values of cash flows that are not based on a foundation of market demand. The market places a premium on 700 MHz spectrum versus AWS in an auction process. Using the United States as an example, the auction price of 700 MHz spectrum was \$1.29 / MHz / Pop., 2.4 times the AWS price of \$0.54 / MHz / Pop. If we were to use the Canadian AWS opening bid amounts for 10 MHz of spectrum and multiply it by the market premium placed on 700 MHz spectrum, relevant opening bid amounts for 700 MHz would be as outlined below for each of the service areas.
61. Eastlink recommends the following opening bid proposal:

700 MHz Auction - IC Proposal				AWS Auction	700 MHz Auction - Eastlink Proposal	
Service Area #	Service Area Name	Paired Blocks	Unpaired Blocks	Opening Bid (10 MHz)	Paired Blocks	Unpaired Blocks
		A, B, C, C1 and C2 Opening Bid	D and E Opening Bid		A, B, C, C1 and C2 Opening Bid	D and E Opening Bid
1	2-01 Newfoundland & Labrador	\$ 1,364,000	\$ 682,000	\$ 300,000	\$ 717,000	\$ 358,500
2	2-02 Nova Scotia & PEI	\$ 2,814,000	\$ 1,407,000	\$ 1,152,500	\$ 2,754,000	\$ 1,377,000
3	2-03 New Brunswick	\$ 1,987,000	\$ 994,000	\$ 625,000	\$ 1,494,000	\$ 747,376
4	2-04 Eastern Quebec	\$ 4,421,000	\$ 2,211,000	\$ 900,000	\$ 2,151,000	\$ 1,075,743
5	2-05 Southern Quebec	\$ 39,042,000	\$ 7,530,000	\$ 14,659,587	\$ 35,036,000	\$ 6,757,366
6	2-06 Eastern Ontario & Outaouais	\$ 7,677,000	\$ 3,111,000	\$ 2,587,500	\$ 6,184,000	\$ 2,505,982
7	2-07 Northern Quebec	\$ 505,000	\$ 253,000	\$ 40,000	\$ 96,000	\$ 48,095
8	2-08 Southern Ontario	\$ 69,324,000	\$ 13,370,000	\$ 25,075,077	\$ 59,929,000	\$ 11,558,057
9	2-09 Northern Ontario	\$ 2,053,000	\$ 1,027,000	\$ 600,000	\$ 1,434,000	\$ 717,349
10	2-10 Manitoba	\$ 3,198,000	\$ 1,599,000	\$ 1,182,500	\$ 2,826,000	\$ 1,413,000
11	2-11 Saskatchewan	\$ 2,729,000	\$ 1,365,000	\$ 600,000	\$ 1,434,000	\$ 717,263
12	2-12 Alberta	\$ 11,936,000	\$ 4,836,000	\$ 3,975,000	\$ 9,500,000	\$ 3,849,028
13	2-13 British Columbia	\$ 14,388,000	\$ 5,830,000	\$ 6,830,000	\$ 16,324,000	\$ 6,614,465
14	2-14 Yukon, NWT & Nunavut	\$ 284,000	\$ 142,000	\$ 20,000	\$ 48,000	\$ 24,000
TOTAL		\$ 161,722,000	\$ 44,357,000	\$ 58,547,164	\$ 139,927,000	\$ 37,763,224

62. Reducing the opening bids for wireless spectrum in service areas predominantly comprised of rural markets, such as Atlantic Canada, Northern Quebec and the Territories, is consistent with the Department’s policy objectives to enhance wireless telecommunications services in rural areas while promoting sustainable wireless competition.

Proposed eligibility points

63. To the extent that the Department accepts Eastlink’s position regarding opening bids, the proposed eligibility points will have to be adjusted proportionately.

Conclusion

64. Eastlink understands the Department’s position as put forward during the May 30th information session that, “Certainly rural deployment is an important objective but the auction objective is to allocate [spectrum] to those that value it the most,” and to rely on the conditions of licence alone to encourage rural deployment, is inconsistent with its previously stated objectives.

65. However, Eastlink reiterates that such a view is not practical. The three incumbents have had access to 800 MHz spectrum for years and, still, in most rural markets there are only one, or two wireless service providers that share a network, from which consumers can obtain service. **Regional players are critical to ensuring that rural deployment is not**

just an obligation to be satisfied and abandoned, but a meaningful undertaking with real intention to provide quality services and competitive options to rural customers.

As a result, it is critical that the auction format itself not inherently disadvantage regional service providers.

66. As a result, Eastlink submits that the Department should select an anonymous SMRA format for this auction. It would address all the Department's concerns related to the AWS auction, it is straightforward, and it has been used in Canada many times so all parties are familiar with the format.
67. In the event that the Department opts to push forward with the CCA format, it is absolutely critical that the Department account for the total population and population density of each licence area in a package when valuing that package. Consideration of these two factors is required to provide regional operators with a practical opportunity to acquire needed spectrum under this auction.
68. At the same time, Eastlink submits that the Department must improve the certainty regarding the supplementary round. Specifically, the Department should clarify that, in the event that all spectrum licences are allocated in the final clock round, that there will not be a supplementary round. Eastlink further reiterates that the Department should provide at least one practical example where a regional player could be successful against a national service provider.
69. Eastlink submits that, in the interest of accurately reflecting the significant preferences that Bell and Telus make available only to each other, and the unprecedented advantages they would otherwise be provided under this auction, Bell and Telus must be required to bid under a single spectrum cap.
70. Eastlink is an established telecommunications service provider. We were the first cable company to offer competitive phone service in Canada (in 2001) and we continue to be the first competitive wireline phone service provider in rural markets throughout Canada. We are committed to building on our success with our wireless service, which we will be launching later this year. We aim to offer competitive retail rates and to support coverage in areas that may not necessarily be priorities for other wireless carriers. The ability to acquire spectrum in the 700 MHz band is necessary for us to meet these objectives. Eastlink submits that our

proposals herein will ensure that all new entrants, while still considerably disadvantaged under this auction compared to incumbents, will have a chance to buy reasonable spectrum packages.

****END OF DOCUMENT****

Appendix "A"

2008 AWS Auction Results

Block Name	A	D	E	F	B	C	G	I	
MHz	20	10	10	20	20	10	10	5	
	Competitive	Set Aside		Competitive	Set Aside		Competitive		Tier 2 Area
Newfoundland & Labrador									Newfoundland & Labrador
Prince Edward Island									
Mainland Nova Scotia									Nova Scotia & PEI
Cape Breton									
Southern New Brunswick									
Western New Brunswick									New Brunswick
Eastern New Brunswick									
Bas de la Rivière/Gaspésie									
Québec									Eastern Québec
Chicoutimi/Jonquière									
Eastern Townships									
Trois-Rivières									Southern Québec
Montréal									
Upper Outaouais									
Abitibi									Northern Québec
Ottawa/Outaouais									
Pembroke									
Cornwall									
Brookville									Eastern Ontario & Outaouais
Kingston									
Belleville									
Cobourg									
Peterborough									
Simcoe									
Toronto									
Brampton									
Mississauga/Kitchener									
Lindsay/Goderich/Sturford									
Niagara-St. Catharines									Southern Ontario
London/Woodstock/St. Thomas									
Chatham									
Windsor/Leamington									
Shelburne									
North Bay									
Sault Ste. Marie									
Sudbury									Northern Ontario
Whitby/Lake									
Thunder Bay									
Winnipeg									Manitoba
Brandon									
Regina									
Moose Jaw									Saskatchewan
Saskatoon									
Edmonton									
Medicine Hat/Brooks									
Lethbridge									Alberta
Calgary									
Red Deer									
Grande Prairie									
Kootenays									
Okanagan/Columbia									
Vancouver									
Victoria									British Columbia
Nanaimo									
Courtenay									
Thompson/Cariboo									
Prince George									
Dawson Creek									
Yukon, NWT & Nunavut									Yukon, NWT & Nunavut

LEGEND

- Rogers
- Shaw
- MIRA
- Videotron
- Competitive
- Bell
- Telus
- DAVE
- Eastlink
- Cogeco
- SaskTel
- BlueCan
- Celluworld
- Rich
- Held by Industry Canada