



**Consultation on a Licensing Framework for Mobile Broadband  
Services (MBS) – 700 MHz Band**

**Canada Gazette Notice No. DGSO-002-12**

**Reply of Quebecor Media Inc.,  
on behalf of itself and Videotron G.P.**

**July 25, 2012**

## TABLE OF CONTENTS

### EXECUTIVE SUMMARY

I.	INTRODUCTION AND OVERVIEW	1
II.	THE SUPPLEMENTARY ROUND – FIX IT OR ELIMINATE IT	3
	a) Recap of Quebecor Media’s Position	3
	b) A Groundswell of Support from Other Parties	3
	c) Only Rogers Cuts against the Grain	5
	d) The Solution is <u>Not</u> to Increase End-of-Auction Uncertainty	7
	e) The Solution is <u>Greater</u> Respect for the Outcome of the Clock Stage	8
	f) If No Solution is Effective, Eliminate the Supplementary Round	9
III.	GENERIC LICENCES	12
IV.	OPENING BIDS	15
V.	THE TREATMENT OF ASSOCIATED ENTITIES	16
	a) Removing Impediments to Associations involving Regional Players	16
	b) The Anti-Collusion Rule: A Necessary Clarification	18
VI.	OTHER ISSUES	21
	a) Prohibition on Bidding on Non-Contiguous Spectrum	21
	b) Not Counting Subordinate Licences toward a Licensee’s Spectrum Aggregation Limit	21
	c) Post-Auction Information Disclosure	22
	d) The Distinction between Bidder-Defined Packages and Auctioneer-Defined Packages	23

## EXECUTIVE SUMMARY

### The Supplementary Round

A strong majority of the carriers who filed initial submissions to the current consultation have expressed serious concerns about the degree of unpredictability, the potential for gaming and/or the bias inherent in the Department's proposed combinatorial clock auction (CCA) format.

Ultimately, what all of these concerns have at their root is a dissatisfaction with the uncertainties created by the proposed supplementary round. Virtually all of the concrete bidding design recommendations put forward by interested parties are intended to reduce the uncertainties generated by the supplementary round, i.e. to reduce the possibility for the supplementary round to undo the auction result that has been established collectively through the clock stage.

One party, however, has chosen to push in the opposite direction. Alone among interveners, Rogers argues that the proposed bidding rules for the supplementary round "give undue weight to preserving the final clock round outcome".

Quebecor Media submits that Rogers' proposals for the supplementary round are woefully misguided. In effect, Rogers proposes to address one limited problem (the potential for vexatious bidding) by greatly expanding the scope of an entirely more serious problem (the potential for a supplementary round outcome that bears no relation to the final clock outcome that preceded it).

Destroying the linkage between the clock stage and the supplementary round would transform the auction, for all intents and purposes, into a massive, unpredictable sealed bid exercise to be conducted at the supplementary round. An astute bidder with considerable financial resources, uncapped in its ability to expand its desired package in the supplementary round, would now be in a position to rewrite the auction result at the last minute. This may be an acceptable outcome for a large national carrier with Canada's most extensive spectrum holdings. It is not an acceptable outcome for everyone else.

Assuming Rogers' proposals for the supplementary round are rejected, the CCA format, as currently proposed, still contains an important flaw. Specifically, in those cases where licences remain unallocated at the end of the clock stage, the minimum incremental bid (the "minimum safety increment") that a bidder must place in the supplementary round to guarantee its final clock package can be prohibitive. Because the minimum safety increment is constant across all bidders, it represents a substantial barrier to full and effective participation by small regional carriers.

The single most important task for the Department is to find a solution that will remove this bias. The proposal that holds the greatest potential for doing so, as put forward by both Quebecor Media and SaskTel, is to restrict each supplementary round bidder to bidding only on its final clock package, augmented by unallocated licences at the bidder's discretion. This proposal would ensure that the final clock outcome is a reliable predictor of final auction outcome for all bidders, large and small. It would also

hold the added advantage of providing a convenient mechanism for facilitating the sale of licences left unallocated after the clock stage.

If the preceding proposal is not deemed to be effective, and no alternative solution can be found, then Quebecor Media recommends the elimination of the supplementary round, pure and simple. Such an action will not alter in any fundamental manner the central positive characteristics of the Department's proposed auction model: elimination of the aggregation risk, transparency, predictability, truthfulness in bidding, and pricing that reflects second price considerations.

### Generic Licences

Quebecor Media agrees strongly with MTS Allstream and Public Mobile that the B and C block licences do not have equal value due to the substantial incremental value that accrues to the B block because of its contiguity with the paired A block. As a result, placing the B and C block licences within the same generic licence category would artificially inflate the price of the C block licences, undermining auction efficiency and unfairly penalizing those auction participants who may have an interest in that block. In light of these considerations, we recommend that the Department eliminate the generic category currently proposed for blocks B and C in the lower 700 MHz band.

### Opening Bids

Quebecor Media considers that Public Mobile has put forward a persuasive case for a generalized reduction in opening bids for the Canadian 700 MHz auction. We fully endorse Public Mobile's recommendation that the Department lower its proposed opening bid prices to be closer to the Irish precedent of \$0.11/MHz/pop or, at a minimum, that the opening bid prices should be no higher than those assigned to the Advanced Wireless Services (AWS) spectrum auction in 2008.

### Associated Entities

Quebecor Media believes that by providing the necessary regulatory flexibility to regional players to allow them to form their own alliances with other regional or national partners (while also allowing them to participate separately in the auction), the Department stands to increase even further the potential pro-consumer benefits from carrier alliances. The Department must avoid the emergence of a double standard whereby it encourages alliances among national players to the detriment of alliances involving regional players, as this would have as a consequence to impede the full and active participation of regional carriers in the 700 MHz auction.

The purpose of the Department's rules regarding associated entities must go beyond just an *ex post* approval of the arrangement between Bell and TELUS in order that they may participate in the auction as separate bidders. Quebecor Media reiterates that the Department must also set the rules so as to permit regional associated entities in different geographic areas to participate separately in the auction.

In addition, Quebecor Media reiterates that the Department must modify the proposed anti-collusion rule by removing the words "including its disclosed associated entities" from the second paragraph, as these words impact directly the capacity of associated entities to realize the legitimate benefits of their association.

However, should this modification be rejected, we call upon the Department to confirm at the very least the legitimacy of information exchanges and cooperative efforts between associated entities who participate in the auction as a single bidder. This clarification is essential, as leaving the proposed rule as currently drafted would have the effect of impeding all information sharing between the entity chosen to act as joint bidder and all the other entities to which it is associated.

## I. INTRODUCTION AND OVERVIEW

1. Quebecor Media Inc. (Quebecor Media), on behalf of itself and its wholly-owned subsidiary Videotron G.P. (Videotron), is pleased to provide the following reply to the submissions of interested parties in response to *Consultation on a Licensing Framework for Mobile Broadband Services (MBS) – 700 MHz Band*, Canada Gazette Notice No. DGSO-002-12 (the Consultation Document).
2. In our June 25, 2012 initial submission, we expressed our appreciation to the Department for its efforts to modernize Canada's spectrum auction format and rules and to remove weaknesses associated with the previously employed Simultaneous Multiple Round Ascending (SMRA) format. We remarked that the proposed new Combinatorial Clock Auction (CCA) format offers potential for significant improvement over the SMRA format, most notably by eliminating the exposure risk, which is the possibility that a bidder could win some but not all of the licences needed for its business case.
3. This being said, we also expressed a deep concern to the Department that whatever improvements might be realized under the proposed CCA format must not come at the cost of erecting new barriers against the full and effective participation of regional carriers in upcoming spectrum auctions. We noted that Canada's spectrum policy framework has always recognized the substantial benefits that flow from a vibrant regional carrier presence and has always worked to encourage this presence.
4. Indeed, since 2008, it has been the new entrant carriers, all of whom have a regional presence, that have transformed the traditionally oligopolistic Canadian wireless sector, improving responsiveness to consumers and generating substantial consumer savings in the process. Whatever spectrum auction format the Department adopts must not impede the ability of these regional new entrant carriers to secure the additional spectrum resources they need to extend and deepen their networks.
5. In our June 25, 2012 initial submission, we focused on two key issues of importance to regional carriers:
  - (i) the detailed technical design of the CCA format, with particular emphasis on the bidding rules for the supplementary round; and
  - (ii) the efforts being made to facilitate certain types of bidder associations considered to be in the public interest.
6. These same issues were central to the initial submissions of virtually all the other interested parties.
7. In the pages that follow, we will review the positions of the various parties on these two key issues, in an effort to find pragmatic solutions that will safeguard

competition and ensure equitable treatment between all players, national and regional, large and small.

8. We will also address several additional matters which were not part of Quebecor Media's initial submission, but which were raised by other parties and merit our reply, most notably regarding the use of generic licence categories and the determination of opening bids.
9. We will not reply to any proposals that fall clearly outside the scope of the current consultation, most notably any proposals that attempt to alter the spectrum cap safeguards established by the Department on March 14, 2012 in *Policy and Technical Framework: Mobile Broadband Services (MBS) – 700 MHz Band, Broadband Radio Service (BRS) – 2500 MHz Band, Canada* Gazette Notice No. SMSE-002-12.

## **II. THE SUPPLEMENTARY ROUND – FIX IT OR ELIMINATE IT**

### **a) Recap of Quebecor Media’s Position**

10. In Quebecor Media’s June 25, 2012 initial submission, we expressed serious concerns regarding the proposed new CCA format, most notably with respect to the design of the supplementary round.
11. We argued that the auction format, as currently proposed, contains an important flaw that stands to act as a barrier to full and effective participation by regional carriers. Specifically, in those cases where licences remain unallocated at the end of the clock stage, the minimum incremental bid (the “minimum safety increment”) that a regional carrier must place in the supplementary round to guarantee its final clock package can be prohibitive. Because the minimum safety increment is constant across all bidders, it will tend to be far less constraining for large national bidders.
12. The result is a structural deficiency in the proposed CCA format whereby large national bidders can easily confer upon themselves the certainty of winning their final clock packages while small regional bidders must risk placing potentially prohibitive end-of-auction jump bids to do the same. Such a result, where the benefits of price and allocation discovery in the clock stage accrue solely to large bidders, is neither efficient nor fair.
13. We called upon the Department to devise a solution to provide certainty to regional bidders that they will not lose their final clock packages during the supplementary round. Among the possible measures that we stated should be investigated were: (i) restricting each supplementary round bidder to bidding only on the packages on which it bid in the clock stage; (ii) restricting each supplementary round bidder to bidding only on its final clock package, augmented by unallocated licences at the bidder’s discretion; or (iii) prohibiting bidders who have no final clock package from participating in the supplementary round. We argued that if none of these measures are deemed to be effective, then serious consideration must be given to ending the auction after the clock stage, perhaps followed quickly by a residual auction dedicated to the sale of the unallocated licences.

### **b) A Groundswell of Support from Other Parties**

14. A review of the initial submissions of other interested parties reveals that Quebecor Media is far from alone in having serious doubts about the efficiency and fairness of the proposed CCA model, particularly for small and/or regional bidders.
15. For example, Eastlink argues that under the proposed rules “new entrant and regional service providers will be participating in this auction at a considerable

disadvantage to national incumbent providers, putting both sustainable competition and meaningful rural deployment at risk”<sup>1</sup>. Eastlink’s concerns focus in large part on the design of the supplementary round which, the company argues, runs counter to the Department’s stated efforts to encourage truthful bidding, discourage gaming and provide certainty to the auction process<sup>2</sup>. As stated by Eastlink:

*... any certainty gained under the CCA process would be lost in the supplementary round as proposed in the Consultation in the event that clock round bids can be easily overturned in the supplementary round. Eastlink submits that there needs to be greater certainty that the allocation of spectrum, and the corresponding prices, resulting from the clock rounds would be unchanged as a result of the supplementary round.*<sup>3</sup>

16. Eastlink also takes little solace in the possibility that each bidder may be able to guarantee winning its final clock package by adding a safety increment related to the final clock price less the opening bid price of all licences left unallocated after the clock stage:

*28. While Eastlink acknowledges that this is an example, it nevertheless serves to highlight the fact that, the more financial resources available to spend on unallocated licence in the supplementary round, the greater the chances of winning your final clock package. While smaller regional bidders like Eastlink will be constrained by relatively smaller budgets and expressions of full value for these unallocated licences, larger publically-traded bidders are far less constrained. In this context, it appears to Eastlink that the supplementary round of the CCA is unjustly biased against smaller regional participants.*

*29. At the same time, new entrants and regional providers cannot effectively plan for even this outcome as the Departments’ recent update has created additional uncertainty. Specifically, the Department’s June 18<sup>th</sup> update stated that, even where a bidder is able to raise its bid by the difference in cost between the starting bid and closing bid of the unallocated licenses, “...This guarantee may be compromised if any other supplementary bid does not include, at a minimum, all of the licences contained in the bidder’s final clock package.” (Paragraph 17 of Annex B)*

*30. Eastlink submits that a “guarantee” that can be “compromised” is clearly not a guarantee.*

17. SaskTel, for its part, summarizes its concerns with the proposed CCA format as follows:

---

<sup>1</sup> Eastlink initial submission, paragraph 3.

<sup>2</sup> Eastlink initial submission, paragraph 17.

<sup>3</sup> Eastlink initial submission, paragraph 18.

*Industry Canada has proposed the Combinatorial Clock Auction (CCA) format for the 700 MHz auction. This auction format, which has never been used in a country with as diverse a market as Canada, favours national bidders over regional suppliers. While, as Industry Canada's consultant on this auction indicated in the recent informational forum, no auction is "perfect", there remains room for modification to allow regional providers a more level playing field. To that end, SaskTel has suggested slight modifications to the supplementary round phase in order to deal with the potentially overwhelming burden of accounting for values of unallocated spectrum on a national level.<sup>4</sup>*

18. TELUS, one of the three large national wireless incumbents, also expresses serious reservations about the complexity, lack of transparency, unpredictability and potential for gaming inherent in the CCA model as currently proposed. TELUS nevertheless recognizes the potential for improvement in the CCA model, and concludes the relevant section of its initial submission with the following statement:

*On balance, despite the concerns raised, TELUS does not recommend scrapping the proposal to auction the 700 MHz band via a CCA but encourages the Department to look for means to further simplify the CCA auction proposed and address the issues raised herein. (emphasis added)<sup>5</sup>*

19. Mobilicity, a new entrant service provider, also expresses considerable skepticism regarding the merits of the proposed supplementary round and goes so far as to recommend its outright elimination. In doing so, Mobilicity makes the important point that "a clock auction without a Supplementary Round has the properties of a Second-Price rule auction that incentivizes truthful bidding"<sup>6</sup>. We will return to this point later in our reply submission.
20. Finally, we note that among the other interested parties who find fault with the design of the supplementary round are MTS Allstream (at paragraphs 2 to 7 of its initial submission) and Xplornet (at paragraphs 11 and 13 of its initial submission), both of whom find the supplementary round mechanism to be biased against the interests of small and/or regional bidders.

### **c) Only Rogers Cuts against the Grain**

21. As the preceding summary reveals, a strong majority of the carriers who filed initial submissions to the current consultation have expressed serious concerns about the degree of unpredictability, the potential for gaming and/or the bias inherent in the Department's proposed CCA format.
22. Ultimately, what all of these concerns have at their root is a dissatisfaction with the uncertainties created by the proposed supplementary round. Virtually all of

---

<sup>4</sup> SaskTel initial submission, paragraph 5.

<sup>5</sup> TELUS initial submission, paragraph 18.

<sup>6</sup> Mobilicity initial submission, paragraph 17.

the concrete bidding design recommendations put forward by interested parties are intended to reduce the uncertainties generated by the supplementary round, i.e. to reduce the possibility for the supplementary round to undo the auction result that has been established collectively through the clock stage.

23. One party, however, has chosen to push in the opposite direction.
24. Alone among interveners, Rogers argues that the proposed bidding rules for the supplementary round “give undue weight to preserving the final clock round outcome”<sup>7</sup>.
25. Rogers states that its position is driven by concerns about vexatious bidding. For example:

*... In the specific case where there are no unallocated blocks, the bidder can then submit supplementary bids for other packages at the highest bid amount allowed by the activity rules without any risk of winning these packages instead of its final clock package. One of the main constraints that checks strategic bidding – the risk that a bid might actually be winning and commit the bidder to pay potentially up to the amount of the bid – has thereby been removed, opening the door for bids made purely with the aim of imposing costs on competitors. ...<sup>8</sup>*

26. To resolve these concerns, Rogers calls for a series of supplementary round rule changes intended to ensure that “the supplementary bids round [has] a genuine role in affecting outcomes”<sup>9</sup>. Most significantly, Rogers proposes that:

*The constraint that supplementary bids must satisfy revealed preference with respect to the final clock round be removed in relation to packages with eligibility greater than the bidder’s eligibility in the last clock round, i.e. that final clock prices do not impose an upper limit to the amount that can be bid for larger packages.<sup>10</sup>*

27. In other words, Rogers is calling on the Department to throw the door wide open to bid sniping in the supplementary round by bidders who have the means and the desire to substantially expand their winning package beyond what was obtained in the final clock round.
28. But of course, for every bidder who succeeds in expanding its winning package at the very last minute as Rogers proposes, there must be at least one other bidder who sees its winning package suddenly shrink or disappear.

---

<sup>7</sup> Rogers initial submission, section heading that precedes paragraph 58.

<sup>8</sup> Rogers initial submission, paragraph 60.

<sup>9</sup> Rogers initial submission, paragraph 61.

<sup>10</sup> Rogers initial submission, paragraph 62(a).

**d) The Solution is Not to Increase End-of-Auction Uncertainty**

29. Quebecor Media submits that Rogers' proposals for the supplementary round are woefully misguided.
30. In effect, Rogers proposes to address one limited problem (the potential for vexatious bidding) by greatly expanding the scope of an entirely more serious problem (the potential for a supplementary round outcome that bears no relation to the final clock outcome that preceded it).
31. Rogers' proposal is undermined first and foremost by the fact that, in a real world auction context, it is virtually impossible to distinguish between vexatious bidding and an honest expression of true relative preferences<sup>11</sup>. When a given bidder bids \$X for package #1 then \$(X-Y) for package #2, on what basis are we to conclude that the bidder is attempting to push up the price of package #2 as opposed to simply placing a relative value on package #2?
32. In fact, the best available protection against vexatious bidding consists of strong revealed preference and activity rule bidding constraints – the very constraints that Rogers is attempting to discard by way of its proposals for the supplementary round.
33. Not only would Rogers' proposals for the supplementary round not achieve their own objective, which is to control allegedly vexatious bidding, they would also have the unacceptable consequence of destroying the linkage between the clock stage and the supplementary round.
34. As we stated in our initial submission, the clock stage serves the stated purpose of price and allocation discovery. Bidders bid on packages of licences that they assemble, at licence prices that are set by the auctioneer and that increase as successive rounds of bidding demonstrate excess demand. The clock stage ends when a round occurs in which there is no excess demand for any licence.
35. At this point in the process, a given bidder should expect to have a high assurance that it will finish the auction with its final clock package. Having bid sincerely for potentially dozens of rounds, having adjusted its optimal package round-by-round as individual licence prices have evolved, and having seen demand gradually fall away as bidding progressed, a given bidder should not then face the prospect of a radical shift in the auction result. If such a radical shift does occur, then it is evident that the price and allocation discovery stage will have been a failure.
36. Destroying the linkage between the clock stage and the supplementary round, as proposed by Rogers, would transform the auction, for all intents and purposes, into a massive, unpredictable sealed bid exercise to be conducted at the supplementary round. All of the information and experience gained through

---

<sup>11</sup> We note, however, that such a distinction does become possible when the bidder's activity defies objective technological considerations. This is the subject of section VI(a) of our reply submission.

the clock stage would be rendered largely meaningless. An astute bidder with considerable financial resources, uncapped in its ability to expand its desired package in the supplementary round, would now be in a position to rewrite the auction result at the last minute.

37. This may be an acceptable outcome for a large national carrier with Canada's most extensive spectrum holdings. It is not an acceptable outcome for everyone else.
38. Spectrum is an essential input for Canada's new entrant carriers. The 700 MHz band, due to its highly favourable propagation characteristics and well-developed technology ecosystems, is a particularly valuable input. The stakes in this auction are simply too high to have it end with a last minute gamble, particularly if the risks of this gamble fall disproportionately on the shoulders of the small regional carriers.

**e) The Solution is Greater Respect for the Outcome of the Clock Stage**

39. As mentioned in the preceding section, strong revealed preference and activity rule bidding constraints, in both the clock stage and the supplementary round, are a crucial element in ensuring truthful bidding and a predictable auction outcome.
40. The current auction design, as proposed by the Department, contains a series of meaningful bidding constraints. However, as discussed in depth in Quebecor Media's initial submission, these current constraints leave room for uncertainty and open up an important bias against small regional carriers.
41. The problem arises when licences are left unallocated at the end of the clock round. When this occurs, a bidder who wishes to guarantee that it wins its final clock package must submit a supplementary bid that increases the amount of its final clock package by at least the value of the unallocated licences as evaluated at the final clock prices less the opening bid prices of the unallocated licences<sup>12</sup>.
42. Depending upon the dynamics of the auction and the number and type of licences that are left unallocated, this minimum incremental bid can be substantial. Worse still, the magnitude of this minimum incremental bid is constant across all bidders, which means that it can much more easily be absorbed by large national carriers than small regional carriers. The result is a supplementary round that is biased against the interest of regional carriers.
43. In Quebecor Media's initial submission, we called upon the Department to devise a solution to provide certainty to regional bidders that they will not lose their final clock packages during the supplementary round. Among the possible measures we recommended for investigation were: (i) restricting each supplementary round bidder to bidding only on the packages on which it bid in

---

<sup>12</sup> Consultation Document, Annex B, paragraph 42, as amended by the Department on June 18, 2012.

the clock stage; (ii) restricting each supplementary round bidder to bidding only on its final clock package, augmented by unallocated licences at the bidder's discretion; or (iii) prohibiting bidders who have no final clock package from participating in the supplementary round.

44. Of these three recommendations, the one that received explicit support in the initial submissions of other parties was the second measure – restricting each supplementary round bidder to bidding only on its final clock package, augmented by unallocated licences at the bidder's discretion. Specifically, SaskTel put forward the following proposal, which in substance is identical to Quebecor Media's second measure:

*The supplementary round winner determination algorithm should be augmented to consider only allocations that satisfy a constraint that every bidder has to win a package that includes at least its final clock round package. That is, the algorithm would allow bidders to pick up some of the spectrum unallocated at the end of the clock rounds, but would guarantee that they would not lose any licences on which they were the high bidder on at the end of the clock round.*<sup>13</sup>

45. We agree with SaskTel that this proposal holds the greatest potential for removing the bias against small regional bidders, by ensuring that the final clock outcome is a reliable predictor of final auction outcome for all bidders, large and small. This proposal also holds the added advantage of providing a convenient mechanism for facilitating the sale of licences left unallocated after the clock stage.

**f) If No Solution is Effective, Eliminate the Supplementary Round**

46. In Quebecor Media's initial submission, we argued that if none of the measures put forward for providing certainty to regional bidders that they will not lose their final clock packages are deemed to be effective, then serious consideration must be given to ending the auction after the clock stage, perhaps followed by a residual auction dedicated to the sale of the unallocated licences.
47. We reiterate that Quebecor Media was not alone in expressing doubts in this regard. As shown in section II(b) of the current reply submission, a series of other interested parties also showed a high degree of skepticism regarding the utility of the supplementary round.
48. It must be said that the Department's own consultation materials do not do much to dispel this skepticism. In fact, the most comprehensive statement made by the Department to explain the need for the supplementary round reads as follows:

*The second phase of the allocation stage is the supplementary round. The supplementary round is a single round process, in which bidders have the opportunity to place additional bids for packages, subject to*

---

<sup>13</sup> SaskTel initial submission, paragraph 33.

*constraints that are based on the bids that they placed in the clock rounds (Section 10 of Annex B). These additional bids could be used to improve bids on packages previously submitted in the clock rounds and/or to submit bids for which they were eligible to bid on, but unable to in the clock rounds.<sup>14</sup>*

49. This statement cites two motivations for wanting to hold a supplementary round, both of which are far from compelling.
50. First, there is the suggestion that a bidder may want to “improve” its bids on packages previously submitted in the clock rounds. But if the clock rounds have run their course, all excess demand has cleared, bidders are sitting on their preferred packages and everyone has been acting truthfully, why is it that a bidder should now feel the need to “improve” its position?
51. Second, there is the suggestion that a bidder may want to submit bids that it was “unable” to submit in the clock rounds. But a central feature of the auction model put forward by the Department is that of bidder-defined packages, which may be modified from round to round as prices evolve, with no standing high bidders at the end of each round. In other words, there is simply no foundation to the notion that a given bidder was ever “unable” to submit a given bid in the course of the clock stage.
52. Based on an objective assessment of what precedes, one needs to ask, as Mobilicity did in its initial submission<sup>15</sup>, whether the supplementary round is truly an essential part of the new CCA model.
53. It appears to Quebecor Media that the answer is no. After all, a CCA auction without a supplementary round would:
  - Still be a combinatorial auction. Bidders would retain the power to self-define their licence packages, round-by-round as the clock stage progresses, thereby completely eliminating aggregation risk.
  - Still be a clock auction. Bidders would continue to benefit from the gradual accumulation of price and allocation information as the individual clock rounds are conducted and as demand gradually declines, thereby contributing to a transparent and predictable auction result.
  - Still retain comprehensive incentives for truthful bidding. Bidders would still be held to a 100% eligibility point utilization rule as well as strict revealed preference rules throughout the clock stage. In addition, there would be no reason for the anonymous bidding rules not to remain in place.

---

<sup>14</sup> Consultation Document, Annex B, paragraph 40.

<sup>15</sup> Mobilicity initial submission, paragraph 3(a).

- Still retain the characteristics of a second price auction. Prices would ascend only until demand clears, providing no indication of how high the individual licence winners were ultimately willing to go.
54. Quebecor Media wishes to emphasize that it is not opposed in principle to a CCA auction that includes a supplementary round, provided the Department is able to devise a solution that provides certainty to regional bidders that they will not lose their final clock packages during the supplementary round.
  55. If this condition cannot be met, we recommend the elimination of the supplementary round, pure and simple. Such an action will not alter in any fundamental manner the central positive characteristics of the Department's proposed auction model: elimination of the aggregation risk, transparency, predictability, truthfulness in bidding, and pricing that reflects second price considerations.

### III. GENERIC LICENCES

56. At section 4.2.1 of the Consultation Document, the Department proposes the use of generic licences as an attribute to the CCA format. Generic licences are defined as “blocks of spectrum that are similar enough and of comparable value such that they can be offered in a single category”<sup>16</sup>. According to the Department, their use enhances substitution and simplifies the bidding process, as it reduces the possible number of combinations on which bids may be placed.
57. The specific generic licence categories proposed in the Consultation Document for the upcoming auction are as follows:
- blocks B and C in the Lower 700 MHz band (two paired generic licences);
  - blocks D and E in the Lower 700 MHz band (two unpaired generic licences); and
  - blocks C1 and C2 in the Upper 700 MHz band (two paired generic licences).
58. Quebecor Media’s initial submission did not comment on the use of generic licences. We have, however, reviewed the comments of other parties on this matter and we offer the following reply.
59. In our view, the most pertinent comments regarding generic licences are those of MTS Allstream. We cite these comments here in full:

*13. MTS Allstream submits that blocks B and C in the Lower 700 MHz band should not be treated as generic licences, since some bidders will value block B spectrum more than block C spectrum. Placing blocks B and C into a single category for bidding purposes will therefore, unnecessarily increase the bidding price of block C. The reason the Department gives for its proposal is that blocks B and C in the Lower 700 MHz band are similar enough and of comparable value such that they can be offered in a single category.*

*14. However, given the fact that the Department is also proposing that the winner of the A licence and one of the B and C licences in a service area will automatically be assigned the A and B licences in that service area, to “guarantee contiguity across these two categories in a service area”, the value will not be the same, nor can it be considered the same from the outset. The proposed contiguity guarantee is based on the recognition that some bidders will value the B licence more than the C licence – i.e., bidders who are limited to a spectrum cap of one paired spectrum block from within blocks B, C, C1 and C2 and who are seeking*

---

<sup>16</sup> Consultation Document, paragraph 25.

*to acquire 2x12 MHz of contiguous spectrum. There is more value to obtaining two contiguous paired blocks (blocks A and B) than there is to acquiring separated paired blocks (for example, blocks A and C).*

*15. The result of treating the B and C licences as generic while also offering the guarantee would be that those bidders who value the B licence more than the C licence (on the basis that it is contiguous with the A licence) will not be differentiating between B and C in the allocation stage and, therefore, those effectively bidding on C will have to keep up with the bidding of those seeking a licence for the B block (in conjunction with a licence in the A block). In addition, those bidders going after a B licence will not have to reserve budget for the assignment round and will therefore be able to include the amount they would otherwise have reserved for the assignment round in the allocation stage. This means that bidders seeking a C licence will have to bid a premium over what they would otherwise have to bid if the B and C licences were treated as separate categories.*

*16. To address the fact that the lower B and C licences are not truly substitutable and are likely to be valued differently, MTS Allstream proposes that these licences be offered in separate categories. By placing blocks B and C in the Lower 700 MHz band in separate categories, bidders will be able to bid on the licences they are truly seeking in the clock rounds and supplementary round. If a single bidder is intent on obtaining both block A and block B, then that bidder can bid its true value for those licences in the allocation stage. There would no longer be an assignment stage for blocks B and C. While this solution would add to the number of licence categories in the auction, it would greatly simplify bidding for many bidders and improve the efficiency of the auction.<sup>17</sup>*

60. We note that a similar analysis and recommendation were also put forward by Public Mobile at paragraphs 14 to 17 of its initial submission.
61. Quebecor Media agrees strongly with MTS Allstream and Public Mobile that the B and C block licences do not have equal value due to the substantial incremental value that accrues to the B block because of its contiguity with the paired A block. As a result, placing the B and C block licences within the same generic licence category would artificially inflate the price of the C block licences, undermining auction efficiency and unfairly penalizing those auction participants who may have an interest in that block.
62. We further agree that the solution to this problem is to eliminate the B+C generic category, thereby allowing independent bidding on the B and C block licences. Under this solution, a bidder who attaches a particular incremental value to the B block will have every opportunity to express this preference through the bidding process.

---

<sup>17</sup> MTS Allstream initial submission, paragraphs 13-16.

63. In light of the above, Quebecor Media recommends that the Department eliminate the generic category currently proposed for blocks B and C in the lower 700 MHz band.

#### IV. OPENING BIDS

64. At section 7.2 of the Consultation Document, the Department presented its proposed opening bid prices for the 700 MHz auction. To determine these amounts, the Department began by establishing minimum accepted price levels using existing cellular and PCS annual fees, adjusted to account for a licence term of 20 years using a 14% discount rate. With respect to paired spectrum, nine of fourteen service areas were given opening bids set at the minimum accepted price level. Opening bids in the five most populous service areas were set at a multiple of the minimum accepted price level.<sup>18</sup> With respect to unpaired spectrum, all opening bids were set at the minimum accepted price level. The result is an aggregate proposed opening bid for all spectrum blocks of \$897,324,000.<sup>19</sup>
65. Several parties provided comments on the Department's proposed opening bids in their initial submissions. Of these parties, Public Mobile's analysis is the most extensive<sup>20</sup>.
66. In the qualitative part of its analysis, Public Mobile warns the Department that "setting a high minimum price (especially when combined with the proposed supplementary round bids) can distort bidding behaviour and price determination". The company expresses particular concern with the distortions that may be caused by pricing gaps between regions and between paired and unpaired licences.
67. In the quantitative part of its analysis, Public Mobile compares the proposed Canadian 700 MHz opening bid prices with those recently used or proposed for similar auctions in six foreign jurisdictions. The company draws particular attention to the case of the upcoming Irish combined 800/900/1800 MHz auction, for which the opening bids have been set at less than one fourth the level proposed in Canada, and for which the regulatory authority commissioned no fewer than five benchmarking studies.
68. Public Mobile concludes its analysis by recommending that the Department lower its proposed opening bid prices to be closer to the Irish precedent of \$0.11/MHz/pop. At a minimum, the company argues that the opening bid prices to be used in the Canadian 700 MHz auction should be no higher than those assigned to the AWS spectrum auction in 2008.
69. Quebecor Media considers that Public Mobile has put forward a persuasive case for a generalized reduction in opening bids for the Canadian 700 MHz auction. We fully endorse Public Mobile's recommendations.

---

<sup>18</sup> A multiple of 1.2 in Eastern Ontario and Outaouais, Alberta and British Columbia, and 2.6 in Southern Ontario and Southern Quebec.

<sup>19</sup> Consultation Document, paragraphs 134 to 138.

<sup>20</sup> Public Mobile initial submission, paragraphs 37 to 43.

## V. THE TREATMENT OF ASSOCIATED ENTITIES

### a) Removing Impediments to Associations involving Regional Players

70. In Quebecor Media's initial submission, we indicated that we generally support the modifications the Department is proposing to the associated entity rules that were in effect for the 2008 AWS auction. We agreed with the Department that it would be appropriate to provide increased flexibility in the treatment of associated entities as relates to their participation in the upcoming 700 MHz auction (subject, of course, to the condition that this increased flexibility not have an adverse impact on auction integrity and not undermine the intent of the spectrum caps).
71. We nevertheless called upon the Department to give greater attention to ensuring that its associated entity rules accommodate in a non-discriminatory manner the potential associations that could be formed between national carriers, between regional carriers, and between national and regional carriers.
72. Specifically, we argued that to the extent the Department allows associated entities in the same geographic area to participate as separate bidders in the 700 MHz auction, it should also allow associated entities in different geographic areas to do the same. In our opinion, there is no inherent reason to believe that the consumer benefits from intra-regional cooperation should be greater than the consumer benefits from inter-regional cooperation.
73. Quebecor Media notes that the majority of interveners who addressed the matter of associated entities in their initial submissions are in favour of the modifications put forward by the Department<sup>21</sup>. Among this group we find, unsurprisingly, the national players Bell and TELUS. These two interveners based their support most notably on an assessment that the advantages flowing from the new associated entity rules will be beneficial to Canadian consumers<sup>22</sup>.
74. We point out, however, that generating benefits for Canadian consumers is not the exclusive preserve of national players. In fact, by providing the necessary regulatory flexibility to regional players to allow them to form their own alliances with other regional or national partners (while also allowing them to participate separately in the auction), the Department stands to increase even further the potential pro-consumer benefits from carrier alliances, both inter-regional and intra-regional.
75. We firmly believe that the Department must keep this consideration in mind as it proceeds to finalize the licensing framework for the 700 MHz band.

---

<sup>21</sup> Bell initial submission, paragraph 47; TELUS initial submission, paragraph 38; MTS Allstream initial submission, paragraph 19; SaskTel initial submission, paragraph 43; Wind initial submission, paragraph 23; Sogetel initial submission, paragraph 10.

<sup>22</sup> Bell initial submission, paragraph 50; TELUS initial submission, paragraph 39.

76. Indeed, Quebecor Media was not the only intervener to call upon the Department to not limit the capacity of regional players to form their own associations, while also keeping their status as separate bidders.
77. Among these voices we find Xplornet, who requested in no uncertain terms that all auction participants that are members of an association be treated on an equal footing:

*If the Bell/TELUS network sharing arrangement is considered to be an associated entity and they are allowed to bid separately, any entities that win spectrum in the 700MHz auction should be treated, at a minimum, in a similar fashion.<sup>23</sup>*

78. Quebecor Media is in complete agreement with Xplornet on this matter. The possible emergence of a double standard – whereby the Department encourages only alliances among national players such as Bell and TELUS – must be avoided, as it would have as a consequence to impede the full and active participation of regional carriers in the 700 MHz auction, to the ultimate disadvantage of their customers.
79. A second voice on this matter is that of Wind. This intervener is concerned with the fact that the proposed rules regarding associated entities appear overly restrictive and overly favourable to Bell and TELUS, given the history of collaboration between these two operators:

*WIND generally supports changes to the spectrum sharing rules to encourage more spectrum sharing. However, WIND is concerned that the current proposals may still be overly restrictive and could have the perverse effect of only enabling meaningful sharing between only two carriers (Bell and TELUS). Bell and TELUS have already engaged in spectrum sharing arrangements and therefore have a pre-existing template with which to quickly strike such deals within the required deadlines. Without additional changes, spectrum sharing may be unduly limited to only Bell and TELUS.<sup>24</sup>*

80. Once again, Quebecor Media agrees. It would be wholly unjust if the rules put forward by the Department were to be restrained in such a way as to constitute nothing more than an *ex post* approval of the collaboration between Bell and TELUS, with the sole objective being to allow these players to preserve their status as separate bidders. We believe that the purpose of the Department's rules regarding associated entities must go beyond just acknowledging a *fait accompli*. Instead, the rules must ensure equal treatment of all alliances and associations, in place or to come, between 700 MHz auction participants, regardless of the participants' status.
81. We repeat our call to the Department to give greater attention to ensuring that its associated entity rules accommodate in a non-discriminatory manner the

---

<sup>23</sup> Xplornet initial submission, paragraph 33.

<sup>24</sup> Wind initial submission, paragraph 23.

potential associations that could be formed between national carriers, between regional carriers, and between national and regional carriers. Among other things, we reiterate our request that, to the extent the Department allows associated entities in the same geographic area to participate as separate bidders in the 700 MHz auction, it should also allow associated entities in different geographic areas to do the same.

**b) The Anti-Collusion Rule: A Necessary Clarification**

82. In Quebecor Media's initial submission, we pointed out that the Department's proposed anti-collusion rule stood to work at cross purposes to its efforts to accommodate beneficial associations among industry players, as well as impeding these players from realizing the legitimate benefits of their associations.
83. We recall that the text of the proposed rule would require of each applicant that it commit to "not discuss during the auction, any agreements, arrangements or understandings of any kind with any competitor, including its disclosed associated entities, regarding the spectrum licences being auctioned or the post-auction market structure" (underlining added).
84. To avoid this adverse impact, we recommended that the Department modify its proposed language by eliminating the words "including its disclosed associated entities". We also expressed the view that this amendment should apply regardless of whether the associated entities are bidding together or separately during the auction.
85. Quebecor Media recognizes that the majority of interveners who addressed this subject in their initial submissions are in favour of the Department's proposed anti-collusion rule. We note that certain interveners<sup>25</sup> expressed specific opposition to the idea that associated bidders who participate separately in the auction be allowed to share information or otherwise cooperate either before or during the auction.
86. Fundamentally, these interveners are of the opinion that to permit any form of sharing or cooperation between separate bidders would threaten not only the transparency of the auction process, but also its very integrity.
87. It goes without saying that Quebecor Media believes strongly in the absolute necessity of preserving auction transparency and integrity. This being said, we reiterate that the ability of associated entities to realize the advantages flowing from their association is dependent upon the Department changing the anti-collusion rule as we have proposed.
88. However, should our requested modification be rejected, we call upon the Department to confirm at the very least the legitimacy of information exchanges

---

<sup>25</sup> Rogers initial submission, paragraphs 120-125; Xplornet initial submission, paragraph 45; Mobilicity initial submission, paragraphs 65-80.

and cooperative efforts between associated entities who choose (or are otherwise required) to participate in the auction as a single bidder.

89. In our opinion, this clarification is essential, as leaving the proposed rule as currently drafted would have the effect of impeding all information sharing between the entity chosen to act as joint bidder and all the other entities to which it is associated. Such a scenario would be nonsensical, as it would require the associated entities to reach advance agreement on a virtually endless list of decisional items related to the auction strategy.
90. Indeed, Quebecor Media draws the Department's attention to the fact that the anti-collusion rule used for the 2008 AWS auction did not prohibit the sharing of information between the entity chosen to act as joint bidder and the other entities to which it was associated<sup>26</sup>. This leads one to ask the question: Why refuse to allow for the 700 MHz auction what was permitted for the AWS auction?
91. In our opinion, the solution available to the Department to clarify this situation is quite simple: Modify the second paragraph of the anti-collusion rule to read as follows:

*The application form to participate in the auction will include a declaration that the applicant will be required to sign certifying that the applicant has not entered into any agreements, arrangements or understandings of any kind with any competitor, other than those disclosed to Industry Canada, regarding the spectrum licences being auctioned or the post-auction market structure. The applicant must also certify that it will not discuss during the auction, any agreements, arrangements or understandings of any kind with any competitor, including its disclosed associated entities **participating as separate bidders in the auction**, regarding the spectrum licences being auctioned or the post-auction market structure. For the purposes of this*

---

<sup>26</sup> This rule read as follows :

*Applicants are prohibited from cooperating, collaborating, discussing or negotiating settlement agreements with competitors, relating to the licences being auctioned or relating to the post-auction market structure, until the deadline for the final payment on winning bids.*

*The application form to participate in the auction will include a declaration that the applicant will be required to sign certifying that the applicant has not entered into and will not enter into any agreements or arrangements of any kind with any competitor regarding the amount to be bid, bidding strategies or the particular licence(s) on which the applicant or competitors will or will not bid. For the purposes of this certification, "competitor" means any entity, other than the applicant and/or its affiliates or associated entities, which could potentially be a bidder in this auction based on its qualifications, abilities or experience. (underlining added)*

Source: Consultation Document, paragraph 77.

*certification, “competitor” means any entity, other than the applicant, its affiliates and/or any associated entities of the applicant who have identified the applicant as their designated bidder to participate in the auction on behalf of the group of entities forming the association, which could potentially be a bidder in this auction based on its qualifications, abilities or experience. (suggested additional text in bold)*

## VI. OTHER ISSUES

### a) Prohibition on Bidding on Non-Contiguous Spectrum

92. At paragraphs 17 to 19 and 22 to 24 of its initial submission, Rogers draws the Department's attention to the fact that, under its proposed auction design, bidders would be permitted to submit bids for packages that contain blocks in both the upper and lower portions of the 700 MHz band.

93. According to Rogers, there is simply no technological or commercial reason why any bidder would wish to win such a package. As a result, the only possible motivation for such a bidding strategy would be to push up prices in the portion of the band that the bidder is not truly interested in.

94. To eliminate this gaming possibility, Rogers proposes that:

*Bidders should not be allowed to bid for non-contiguous spectrum in the same package where there is no commercial purpose. Specifically, bidders should not be allowed to place: a) bids for packages that include upper block licences at the same time as the lower A block; and b) bids for packages that include both the A and D/E blocks without also including a bid in the B/C block.<sup>27</sup>*

95. Quebecor Media considers that in this specific case Rogers has identified a bidding pattern with no valid commercial motivation. We support Rogers' recommendation that the Department introduce a targeted bidding constraint to eliminate this evident gaming opportunity.

### b) Not Counting Subordinate Licences toward a Licensee's Spectrum Aggregation Limit

96. At paragraph 88 of the Consultation Document, the Department provided the following clarification regarding the use of subordinate licences in a spectrum sharing arrangement:

*Where licensees establish an agreement to share spectrum such that another entity has control over the use of the spectrum, a subordinate licence is required. This requirement applies to all spectrum sharing arrangements, whether the arrangement is established post-auction or was established and disclosed prior to the auction. Subordinate licences may not count towards the licensee's aggregation limit if the licensees demonstrate to the satisfaction of Industry Canada that they meet the criteria with respect to competing in the applicable service area.*

---

<sup>27</sup> Rogers initial submission, paragraph 22.

97. At paragraph 44 of its initial submission, Wind expresses its support for the Department's clarification.
98. In contrast, at paragraph 24 of its initial submission, MTS Allstream expresses its opposition, stating simply that "spectrum caps should apply consistently to all licensees and spectrum that is acquired in the first five years".
99. In reply, Quebecor Media wishes to add its voice in support of the Department's clarification.
100. Depending on the nature of the network sharing arrangement that is arrived at between two parties, it is conceivable (and at times even desirable in terms of aggregate network performance) that one of the two parties operate the entirety of the combined spectrum resource at any given geographic location. In these cases, the details as to which party manages the combined spectrum resource in which geographic areas would typically be spelled out in the sharing agreement.
101. Subordinate licences provide nothing more than a useful administrative mechanism for giving operational effect to such sharing arrangements. Provided the arrangements themselves satisfy the Department's overall policy objectives as stated elsewhere in the Consultation Document, and provided the parties' primary licences do not exceed the applicable spectrum caps, there should be no concern with the issuance of the necessary subordinate licences.

**c) Post-Auction Information Disclosure**

102. At section 4.2.4 of the Consultation Document, the Department proposes to make the following information publicly available following the conclusion of the auction:
  - the list of winning bidders, licences won and prices to be paid;
  - the bids submitted by each bidder in every clock round, including their identity;
  - the supplementary bids submitted by each bidder, including their identity; and
  - the assignment bids submitted by each bidder, including their identity.
103. To support this proposal, the Department asserts that "full disclosure of all bidding information at the end of the auction would allow all interested parties to verify the results of the auction, facilitating greater transparency of the auction results"<sup>28</sup>.
104. Public Mobile argues that the Department's proposal is extreme, pointing out that other jurisdictions have uniformly rejected comprehensive disclosure of this type, either during or after the auction. The company expresses concern that disclosure of the full record of bids submitted throughout the course of the

---

<sup>28</sup> Consultation Document, paragraph 55.

auction would reveal considerable commercially sensitive information about bidding strategies and goals that can give competitors significant insight into a bidder's strategic direction<sup>29</sup>.

105. Quebecor Media is sensitive to the concerns that have been expressed regarding post-auction information disclosure, and encourages the Department to find a more moderate approach that better protects the strategic information of bidders.

**d) The Distinction between Bidder-Defined Packages and Auctioneer-Defined Packages**

106. At paragraph 31 of its initial submission, SaskTel addresses the potential utility of a packaged SMRA auction, making specific reference to the United States FCC's 2008 700 MHz auction (Auction 73) in which package bidding was permitted for the upper C block.
107. While we do not believe it was SaskTel's intent to express support for the specific packaging model used by the FCC for the upper C block in Auction 73, we nevertheless wish to point out that the model used was particularly restrictive and thereby particularly disadvantageous for small regional carriers.
108. FCC Auction 73 allowed bidding on individual upper C block regional licences or on a single auctioneer-defined upper C block package comprising the entire United States, but nothing in between. Such an all-or-nothing model is markedly deficient compared to a model that allows bidder-defined packages that bidders may modify from round to round until demand clears. Among other things, the all-or-nothing model is subject to a more pronounced free-rider effect whereby regional bidders are incented to understate their values.
109. As Quebecor Media discusses at section II(f) and elsewhere in this reply submission, combinatorial clock auction models have the advantage of eliminating aggregation risk and can do so regardless of whether a supplementary round is included in the model. This benefit largely disappears, however, once the eligible packages are restricted to a small number of packages defined in advance by the auctioneer. Whatever model is ultimately adopted, maximum equity and efficiency can only be achieved if packages are bidder-defined.

All of which is respectfully submitted.

---

<sup>29</sup> Public Mobile initial submission, paragraphs 30-35.