

SaskTel Reply Comments:

Canada Gazette Notice DGSO-002-12

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

July 25, 2012

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EXECUTIVE SUMMARY

1. The following represents the Reply Comments of Saskatchewan Telecommunications (“SaskTel” or “the Company”) in response to Gazette Notice DGSO-002-12 *Consultation on a Licensing Framework for Mobile Broadband Services (MBS) - 700 MHz Band*.
2. Below, SaskTel offers our input into certain major concerns raised by the Consultation and the Comments of various interveners. Failure by SaskTel to address any specific comment or allegation should not be construed as agreement or acquiescence on the part of SaskTel, where such agreement or acquiescence would be inconsistent with the interests of SaskTel.
3. In preparing this reply, SaskTel was struck by the commonality of the comments from such a diverse range of companies and individuals. The vast majority of commentators provided a focus around two notable themes:
 - i. there is a wide divergence between the stated policies of the Government of Canada to use the 700 MHz auction to enhance service levels for rural residents and the actual conditions of licence proposed in this licensing framework; and
 - ii. the Combinatorial Clock Auction (CCA) format proposed by Industry Canada (“the Department”) is extremely complicated, creating uncertainty amongst bidders, is non-transparent and is strongly biased against regional providers. Many of these concerns could be resolved with a guarantee of maintaining any package of licences for which a company had winning bids at the end of the clock round while paying, at most, the final clock prices.
4. SaskTel stands with the majority of commentators (including Eastlink, MTS Allstream, SSi, Tbaytel, Bell and TELUS) that the rural conditions of licence set out in this consultation will do little to advance service levels in rural areas of Canada. Linking the conditions of licence to a specific type of technology such as HSPA is inconsistent with sound regulatory policy and with obtaining the objective of bringing quality services to rural areas so that they are not left on the wrong side of the digital divide. Basing rollout requirements on established HSPA footprints would excuse most mobile operators from any meaningful build requirement in rural areas. For example,

in Saskatchewan and Manitoba only SaskTel and MTS Allstream would be subject to rural build out requirements. Other larger carriers such as Rogers or new entrants would have no requirement to increase their rural investments in these provinces or in other rural areas.

5. SaskTel supports companies such as TELUS and MTS Allstream in their call for greater population coverage requirements in rural areas, increased requirements for spectrum owners to invest in rural areas rather than purely relying on roaming, shorter timelines for deployment and stricter penalties for those who do not deploy this scarce resource. However, we are acutely aware that the Department must balance the conditions of licence which would foster rural requirements with the long-held policy of ensuring that smaller, less established, primarily urban, new-start-ups such as Public Mobile can provide competitive services in major centres like Toronto.
6. Accordingly, SaskTel has proposed the concept of spectrum sharing on a 'use it or share it' basis. In this model, rural service providers may make use of this scarce resource to ensure that their customers have access, while other carriers can invest using their spectrum in competing for the more lucrative urban markets. Adopting this concept would allow The Department to bridge the gap between their two objectives of stimulating new companies, while supporting rural residents. One of the major benefits of this concept is the promotion of the efficient and effective use of 700 MHz spectrum throughout all regions of Canada.
7. SaskTel agrees with all of the commentators in this public process who lament the complex new Combinatorial Clock Auction process. Although SaskTel originally questioned the wisdom of introducing this relatively new and untried auction process in favour of a more traditional SMRA process (and continues to do so) we recognize, as others have recognized, that the Department is set on this course of action. As such, we draw the Department's attention to the number of companies which focused on the negative implications of the supplementary round rules in this auction format and we propose solutions to deal with these implications.
8. TELUS aptly describes the supplementary round as the "knock-out" bid that displaces the final clock round package of another bidder even with a market clearing final clock

round¹. This leads to undue ambiguity for all bidders in this process. This uncertainty, combined with the unfair onus the supplementary round places on smaller regional players to increase their supplementary bids from their final clock bids to account for all unallocated spectrum in the system, creates an inequitable playing field for smaller companies in this auction process.

9. Quebecor Media Inc (“Quebecor”) has eloquently and correctly portrayed regional telecommunications providers as integral to the fabric of the Canadian industry². The CCA format, and most particularly the proposed rules concerning the supplementary round, does not address the realities of telecommunications delivery in Saskatchewan.
10. SaskTel supports both Mobilicity³ and Eastlink⁴ in their call to eliminate the supplementary round in this auction if there is no unallocated spectrum at the conclusion of the final clock round. SaskTel suggests that the supplementary round winner determination algorithm could 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 at the end of the clock round.
11. Finally, SaskTel asks the Department to redraw the boundaries of spectrum within Lloydminster, giving consideration to the history, geography and market in that area. The artificial boundaries created by the Department do not consider how the people of Lloydminster have already adapted to living on two sides of a provincial border; where the major centres of employment are located; or the long standing commercial and technical agreements between the major service providers. In making its administrative change to these boundaries, we firmly believe that the Department has not explored the realities of the development of telecommunications in this area and has incited TELUS to take steps to obtain an artificial market advantage over

¹ TELUS Comments, paragraph 16

² Quebecor Comments, paragraph 21-34

³ Mobilicity Comments, paragraph 3

⁴ Eastlink Comments, paragraph 21

SaskTel. There is no reason that the boundaries should not be moved back to the provincial borders.

THE PROPOSED LICENSING FRAMEWORK DOES NOT INCLUDE EFFECTIVE RURAL MEASURES

12. As we stated in our Comments - and despite Government of Canada statements to the contrary - the proposed conditions of Licence related to rural deployment requirements and the general deployment requirements, do virtually nothing to enhance rural coverage. All commentators addressing this issue seem to agree. Bell Mobility Inc. ("Bell") explores one facet of the failure of the proposed framework to address rural issues, submitting that linking the rural deployment requirement to HSPA coverage as of March 2012 is inadequate in the event that a foreign bidder should obtain two paired blocks of 700 MHz spectrum⁵. Bell states:

Because such a "greenfield" non-Canadian wireless carrier would have no existing HSPA footprint as of March 2012, as drafted, this COL would impose absolutely no obligation on such a new entrant to serve rural areas of Canada after five years or seven years of the licence term. In other words, having no pre-existing HSPA footprint as of March 2012 against which to measure its 700 MHz spectrum network roll-out obligations, such a new entrant would effectively be exempt from this critical policy to ensure rural Canadians are not left behind in the digital divide. [emphasis added]

13. However, the issue described by Bell is true in far more instances than the case of a potential foreign-owned new entrant. In Saskatchewan, for instance, there are only two existing networks with any HSPA deployment. SaskTel has deployed this technology extensively throughout the province while Rogers has deployed it only within the cities of Regina and Saskatoon. Should any other carrier acquire two paired blocks of 700 MHz spectrum, that carrier's rural deployment obligation will be exactly zero. Even if Rogers acquired two blocks, its only obligation would be to provide coverage in Regina and Saskatoon which are not rural locations.

14. TELUS provides a similar view of the ineffectiveness of the proposed rural deployment conditions, stating:

⁵ Bell Comments, paragraphs 12-14

TELUS does not support Decision B4-2 of SMSE-002-12 as it pertains to mobile operators without extensive existing HSPA network footprints or in fact, no HSPA footprint as of March 2012. The effect of this construction of the Condition of Licence, which TELUS considers must be an oversight or unintended, would excuse many mobile operators, other than the established ones from any meaningful build requirement.⁶

15. Other commentators share this view of the extremely low value of the rural deployment conditions currently proposed. Bragg Communications Inc., carrying on business as Eastlink (“Eastlink”)⁷, MTS Allstream⁸ and Tbaytel⁹, in their respective comments all express doubt that the requirements as defined will impact any carrier apart from established rural providers. The SSi Group of Companies (“SSi”), in paragraph 38 of its Comments, puts it most bluntly:

Speaking frankly, we do not understand how those parts of the country that have no mobile wireless service today, or are underserved or have no HSPA deployment, will have gained anything through the proposed wording of the licence condition related to rural deployment requirements.¹⁰

16. In light of the number of commentators who have recognized the deficiencies inherent in the original proposal for stimulating rural services, SaskTel repeats our proposal that the Department make two changes to the rural deployment conditions. Combined with our proposals on general deployment requirements, these changes will ensure that both urban and rural Canadians benefit from this spectrum.
17. Firstly, we recommend that the Department make rural deployment conditions apply to any party obtaining a licence to at least one block of prime paired 700 MHz spectrum.
18. Secondly, we recommend that the rural deployment requirement apply to a more significant footprint than a carrier’s March 2012 HSPA deployment. Bell has suggested “[i]n the case of a large foreign new entrant ... the spectrum roll-out obligations for that new entrant are measured in respect to the largest HSPA network operational in the relevant licence area as of March 2012.”¹¹ In our view, such a

⁶ TELUS Comments, paragraph 81

⁷ Eastlink Comments, paragraph 53

⁸ MTS Allstream Comments, paragraph 12

⁹ Tbaytel Comments, paragraph 44

¹⁰ SSi Comments, paragraph 38

¹¹ Bell Comments, paragraph 16

requirement would be acceptable if applied to all carriers, not just foreign-owned new entrants. However, we repeat our earlier proposal that the obligation apply to a percentage of the bidder's overall facilities-based coverage, using any technology, not just to their HSPA coverage. Bidders with buildings, towers and backhaul already deployed to support other technologies are much more readily able to deploy additional spectrum, especially spectrum with the reach of 700 MHz. Deployment should not be restricted to the very limited areas where such a bidder may have deployed HSPA. Such a requirement, combined with a strengthened general deployment COL, would mean that any carrier with an existing network would have at least some aspect of a real rural deployment requirement, while a carrier without network in place would deploy in accordance with the general deployment requirements.

19. We also urge the Department to strengthen the general deployment COL. These conditions, as proposed, require coverage of urban areas only, while the primary benefit of 700 MHz spectrum is its rural coverage capability. We concur with TELUS that there may be "logic in synchronizing the population coverage based deployment requirement levels of AWS spectrum with MBS spectrum"¹² but that using AWS deployment levels for 700 MHz spectrum is flawed and "runs counter to the Department and Minister's objective to ensure that competition, investment and innovation using this spectrum is delivered to the broadest number of Canadians, in a timely fashion"¹³. However, we do not believe that the increased deployment requirements proposed by TELUS are sufficient to rectify the issue. Requiring coverage of only an additional 10% of the population of Saskatchewan will not result in any substantive rural deployments (although it will at least result in a requirement to cover more than just the cities of Regina and Saskatoon, which is all the proposed 40% deployment requirement would do).
20. The greatest benefit of the 700 MHz spectrum being auctioned is its ability to provide rural Canadians with access to the emerging digital economy. This rural spectrum should be subject to rural deployment requirements, not the urban requirements

¹² TELUS Comments, paragraph 84

¹³ Ibid.

which were applied to AWS. SaskTel urges the Department to adjust the general deployment requirement to at least 75% of the population in a service area.

RURAL SPECTRUM SHOULD NOT BE LEFT FALLOW

21. In Canada, regional providers are the only facility-based service provider for many rural residents. And they are vital contributors to the communications fabric, providing competitive alternatives to many Canadians and advanced services to other Canadians who might otherwise not be served at all.
22. Rural spectrum in the province of Saskatchewan has been licensed but unused for decades. As SaskTel has noted in previous gazette notices, Rogers and TELUS have spectrum licences which have covered rural areas across the province since 1986 and 1991 respectively and have never used the rural components¹⁴. We do not anticipate this situation changing in the future; especially if the Department persists in granting mandatory roaming rights to the very companies who have left this spectrum unused. Saskatchewan is not the only territory in which this is true. As Tbaytel states “the wording punishes those carriers who have infrastructure already in place. Those carriers who have not deployed or built in areas where they have held Licences for years are in a sense benefiting from the work of others”¹⁵.
23. The new entrants will not deploy network to make use of any newly acquired 700 MHz spectrum in rural areas as they must succeed or fail in more profitable urban areas first. Their attitude may best be exemplified by Mobilicity’s comment that “[d]eployment of HSPA networks in rural areas is strongly influenced by economic factors. Existing deployment of HSPA networks therefore serves as a proxy for where high-speed network deployments make economic sense.”¹⁶ We believe this attitude will be common among new entrants. We further strongly believe that high-speed network deployments will not make economic sense to new entrants in Saskatchewan, except in the cities of Regina and Saskatoon, and that such logic will apply across Canada. New entrants will focus their limited capital on the most densely populated areas of Canada. This means that – without further action by the

¹⁴ SaskTel Comments to DGSO-001-12, paragraph 15

¹⁵ Tbaytel Comments, paragraph 44

¹⁶ Mobilicity Comments, paragraph 9

Department - spectrum is likely to remain fallow for the next decade or more in rural Canada.

24. Adopting a combination of auction rules, mandatory roaming requirements, and spectrum caps that leave rural spectrum in the hands of those who choose not to use it, while simultaneously restricting the ability of those who do want to serve rural areas to access sufficient spectrum would do a grave disservice to rural residents and would waste a valuable national resource.
25. To rectify this situation, we have proposed, in our comments on Gazette Notice DGSO-001-12, that mandatory roaming only apply to new entrants. Later in these Reply Comments, we also propose adjustments to the auction format that will help those regional providers who do want to serve rural areas to bid for spectrum on an equal footing with those who do not want to serve these areas.
26. We also repeat our call for the Department to adopt a 'use it or share it' condition of licence. This condition of licence would apply to cases where licence holders have deployed network in some of their licence area (typically the urban portions) and are using a portion of their spectrum but have no plans to use the spectrum in the remainder of the (typically rural) geographic area. Often, the licence holder has deployed network and towers to reach a reasonably significant portion of the population and a potentially insignificant portion of the geography covered by the spectrum licence. The licence holder then reaches a point where it is not considered economically viable to deploy more facilities or make any use of the rural spectrum in question. In these cases, when a different network owner is ready and able to make use of the rural portion of the spectrum, and when rural Canadians are crying out for improved services, it would be a grave mistake to leave the rural spectrum vacant.
27. We note that TELUS takes some steps in this direction when they recommend that:

If an MBS licensee breached the deployment requirements via insufficient investment (i.e., it had built out but had not built out extensively enough to meet the conditions), it would be mandated to sub-licence its MBS spectrum on commercial terms anywhere where it sought an in-territory roaming agreement.¹⁷

¹⁷ TELUS Comments, paragraph 101

28. However, TELUS' proposal does not go far enough. The 'use it or share it' COL should be triggered whenever there are large geographic areas in which the licence holder has no plans to deploy, regardless of whether the licensee has met its deployment requirements. Firstly, the deployment requirements, as proposed cover a miniscule portion of the geography in most areas. As modified by TELUS, they would cover more area, but still less than 5% of the geography of Saskatchewan, for example. Even if the Department adopted SaskTel's proposal of a requirement to cover 75% of the population, very large areas could be left unserved by the spectrum in question. SaskTel proposes that in any such case where the licensee's network deployment has stagnated, another provider could make application to share the otherwise unused spectrum.
29. SaskTel also strongly disagrees with TELUS' proposal to share spectrum "on commercial terms". This encourages licensees to view obtaining unused spectrum as either a strategy to block others wishing to serve rural areas or as a purely speculative investment.
30. SaskTel has some experience of TELUS' "commercial terms". In our opinion, these terms may well be so onerous as to preclude 'use it or share it' agreements being reached. This will likely lead to rural spectrum remaining fallow. We do agree that the use of commercial terms is the best means of reaching roaming agreements but we do not agree that spectrum access obtained through a 'use it or share it' agreement has the same value. Spectrum shared under SaskTel's proposal has none of the certainty of a roaming agreement. Under our 'use it or share it' proposal, the operator using the spectrum must be prepared to vacate it within two years of notice being provided by the licensee that it has plans to use the spectrum in the area where it is being shared. It would be dangerous for any operator to rely too heavily on spectrum obtained in this manner and therefore the value would be much lower (not to mention the additional facilities costs faced by an operator sharing spectrum as opposed to roaming). Spectrum obtained in this manner has no alternative commercial use and should be provided at no cost to the operator making use of it.
31. For the same reasons (lack of commercial alternatives and lack of certainty) spectrum use obtained under a 'use it or share it' COL must not count towards any spectrum caps. To apply a cap to such spectrum would guarantee that it will lie fallow.

THE CCA FORMAT, AS PROPOSED, DISCRIMINATES AGAINST REGIONAL PROVIDERS AND MUST BE ADJUSTED

32. SaskTel has already expressed its disagreement with the use of the CCA format.

SaskTel finds the proposed format is overly complex, not transparent and discriminatory against regional players. And many agree. TELUS¹⁸, Bell Mobility¹⁹, Eastlink²⁰, Mobilicity²¹ and Rogers have all noted the complexity of the proposed CCA format. (Rogers supports the adoption of a CCA format but then goes on to note the complexity of both the supplementary round²² and the assignment round²³, as well as other components such as eligibility points²⁴ while adding further complexity in its recommendations). As TELUS states in paragraph 17 of its comments:

In summary TELUS' view is that the proposed CCA format, while perhaps attractive from an auction theory perspective, in practice will not be simple for bidders which during the bidding process will be unable to predict how much they may end up paying. Further, there is a reasonable probability that the outcomes will be perceived as unfair, potentially amplified by transparency issues related to the disclosure, workings and outcomes of the 'solver' algorithm for winner determination and price determination.

SaskTel concurs and remains concerned that the results of this auction will not be easily auditable, transparent or understandable by the Canadian public or indeed by auction participants.

33. While SaskTel continues to believe that a return to an SMRA format, modified to incorporate package bidding, would be most appropriate for the 700 MHz auction, we accept that the Department may resist this recommendation given the effort it has already expended in promoting the CCA. As such, at the very least we believe the proposed CCA format should be modified, most importantly to remove its bias against regional providers, but also in other ways. We discuss these proposals below.

¹⁸ TELUS, in paragraph 14, states “[t]he proposed auction is not simple for bidders despite what may be claimed”

¹⁹ In paragraph 125, Bell notes “the additional complexities the CCA format presents”

²⁰ Eastlink states “the auction framework as proposed is extremely complex” in paragraph 13

²¹ In paragraph 9, Mobilicity states “[t]he auction rules are significantly more complicated than in previous auctions.” Mobilicity makes similar statements elsewhere.

²² Rogers Comments, paragraph 94 and 95c

²³ Ibid, paragraph 96 and 99

²⁴ Ibid, paragraph 163

34. In our Comments, we noted the handicap faced by regional providers in the CCA format currently proposed. Many others, including Eastlink²⁵, Quebecor²⁶, MTS Allstream²⁷, Tbaytel²⁸ and Xplornet²⁹ also noted this critical flaw. As Eastlink stated:

The framework as currently structured would substantially favour the wireless incumbents making it extremely difficult for new entrants and regional service providers to obtain any reasonable package of spectrum under this auction.³⁰

35. It is critical that the Department move to address this flaw and let regional providers compete for spectrum fairly and on equal footing with the big three Canadian service providers. This is true not only because an accumulation of spectrum in the hands of only these three providers goes against the policies the Department has implemented to increase competition in the Canadian wireless market, but also because it is the regional providers that will help free rural Canadians from technological isolation from the rest of the country. In Saskatchewan for example, SaskTel – if we are successful in obtaining 700 MHz spectrum – will roll out advanced data services to rural Canadians. Other large providers simply will not do so.

36. Bell Mobility makes a similar case to this when suggesting that large foreign-owned providers would invest in larger markets in other jurisdictions before investing in Canada³¹. The case which Bell so eloquently makes regarding what a large foreign owned entrant might do (or not do) with Canadian spectrum, applies equally to what large Canadian wireless companies will do with spectrum covering rural Canada. We note, for instance, Bell's comparisons to Rimouski – which, if transplanted, would become the third largest city in Saskatchewan – and to Hamilton – which is larger than Regina and Saskatoon combined and located in the most populous area of Canada. With locations like this on the Canadian deployment path, it will be a long time, and possibly never, before the big three make use of spectrum they may gain in places like Big River, Saskatchewan. With all of this in mind, SaskTel does not ask for special treatment for regional players in the upcoming auction, just that they be

²⁵ Eastlink Comments, paragraph 13

²⁶ Quebecor Comments, paragraphs 19; 35-51

²⁷ MTS Comments, paragraph 3

²⁸ Tbaytel Comments, paragraph 8

²⁹ Xplornet Comments, paragraph 10

³⁰ Eastlink Comments, paragraph 13

³¹ Bell Comments, paragraph 10

allowed to compete on an equal footing and, if they are successful in having a high bid in the clock round, that that high bid not be mysteriously wiped out in the supplementary round. As Eastlink states:

Simply put, this spectrum is the last of its kind that will be made available and it is the Department's best tool for encouraging competition in rural areas. Fostering rural competition should be paramount in the Department's decision regarding the terms on which regional service providers will have an opportunity to access the spectrum. The blocks available under this auction are too small to serve any capacity purpose for wireless service providers in urban areas; this spectrum is critical for rural competition and all decisions should be made with this context in mind.³² [emphasis original]

Changes to the Supplementary Round

37. As the Department is aware, and as many have pointed out³³, the rule that most concerns regional players is the potential of companies with winning clock round bids to lose that bid unless they increase their bid in the supplementary round by the final clock price of any unallocated licences less the opening bid prices of the unallocated licences. SaskTel agrees and submits that the supplementary round as proposed is not consistent with an open and fair process.
38. In SaskTel's opinion, there are three major roles for the supplementary round in the auction:
- i. It allows bidders to purchase some of the Licences that were unallocated in the end of the final clock round;
 - ii. It affects the prices bidders pay, allowing bidders to express their true marginal valuations, (however, as Rogers describes, it may allow bidders to increase the payments of their opponents beyond true marginal valuations);
 - iii. It may create an opportunity to surprise another bidder and "snipe" a Licence for which that bidder had the high bid at the end of the clock phase, nullifying the price and allocation discovery role of the clock phase. The risk of being surprised and completely shut out of the auction may seem small for a nationwide bidder, but as the comments show, it is a huge concern for regional bidders.

³² Eastlink Comments, paragraph 47

³³ Concerns with this round are expressed by Eastlink (paragraph 16-20), Quebecor (paragraph 19; section IIc), Xplornet (paragraph 11) and Tbaytel (paragraph 9)

39. We believe that the first of these roles is the only one with which the Department should be concerned. The second role merely determines how much less than their final clock bids a buyer must pay (and introduces potential gamesmanship) while the third is purely an opportunity for gamesmanship and increased bids. Indeed, the existence of the third role makes a mockery of the price discovery which has occurred in the clock round and reduces this auction to a single sealed bid affair. This is especially the case if Rogers gets its wish³⁴ and the constraint of the final price cap from the clock round is lifted.
40. SaskTel agrees with Eastlink³⁵ that, if all spectrum is allocated at the end of the clock round, the supplementary round should not be held. We could also accept Mobilicity's³⁶ suggestions that perhaps the supplementary round should be removed in all cases.
41. In the event that there is unallocated spectrum, we repeat our proposals that the supplementary round winner determination rules be adjusted so that:
- i. Bidders who continue to match their final clock round package in the supplementary round must win a package that includes at least their final clock round package; or
 - ii. Bidders could guarantee successfully maintaining their winning clock round packages by bidding their maximum clock round bid plus the clock price less opening bid amount of unallocated licences in the corresponding Tier(s) in which they are bidding to win.
42. We described these alternatives in our Comments, and feel that either solution would eliminate the bias in favour of the big three wireless providers that currently exists in the rules. We do note that other regional providers have also provided potential solutions to this bias. We believe there may be some merit in their proposals, but continue to feel that our own proposals are preferable and can be accommodated by the auction software.

³⁴ Expressed in paragraph 61 of its Comments

³⁵ Eastlink Comments, paragraph 21

³⁶ Mobilicity Comments, paragraph 3

Bid Increments

43. We note the call from Tbaytel³⁷ to develop a clear model tying incremental bid value to demand. We believe our proposal satisfies this call and would allow the Department to hold a more efficient and effective clock round while still satisfying price discovery. It does this by incorporating large bid increments in earlier clock rounds, especially in areas where excess demand is significant and smaller, more finely tuned increments in later rounds as bids are refined more precisely.
44. In our proposal we suggest that in the first eight rounds of the auction, or until the aggregate demand is below 1.5 times the available licences, bid increments be 5% when demand for Licences is one greater than the supply, 10% when it is two greater than the supply, 15% when it is three greater than the supply and 20% when it is four or more greater than the supply. In further rounds, bid increments should be reduced to 3%, 6% and 10% when demand is one, two, and three or more greater than supply.

Core Pricing Adjustments

45. Several companies, including Rogers³⁸ and Tbaytel³⁹, suggest adjustments to the proposed core pricing adjustment rules. SaskTel agrees that these rules should be modified (although we disagree with Rogers' proposal) and suggests that the pricing adjustments be made based on either relative opening bids (preferably) or on final clock prices.

Generic Licence Blocks

46. SaskTel, for the most part, supports the categories of generic licences proposed by the Department. We fully agree with the creation of generic licences for the A block, the B and C blocks, and the C1 and C2 blocks. We also agree that the unpaired, TDD blocks are unique enough to require their own generic licence category.
47. SaskTel notes TELUS⁴⁰ questioning of the Department's proposed generic blocks. We disagree with TELUS and reiterate our agreement with the Department's proposed blocks, assuming all of the proposed bands remain in the auction.

³⁷ Tbaytel Comments, paragraph 7

³⁸ Rogers, paragraphs 68-73

³⁹ Tbaytel, Paragraph 13

⁴⁰ TELUS, paragraph 16

However, we do repeat our recommendation that, because the unpaired TDD blocks are so unique, they should not be in this auction. We believe that removing these blocks and auctioning them at a later date would increase the efficiency of this auction; reduce the possibility of strategic bidding behaviour; reduce the amount of licences purchased and then left fallow; and increase the eventual sale price of these licences, once technologies are further developed and technical issues are resolved.

Rogers' Proposals

48. Rogers introduces an extensive set of proposals which appear to us to reframe the entire auction. Frankly, we are perplexed that, while noting the existing complexity of various components of the rules, Rogers then proposes to introduce such a large package of modifications which bring even more complexity to the process. If the currently proposed rules are intricate and confusing to some bidders (and especially to the public), the rules as proposed by Rogers will be even more so. We imagine, for instance, Rogers' proposal that each bidder be allowed 2000 bids in the supplementary round. There appear to be at least 17 potential bidders in this auction, based on parties that have submitted comments. Assuming three more bidders emerge, this one proposal from Rogers could lead to 40,000 supplementary package bids being placed in a one round sealed bid process. It is unimaginable to SaskTel that such a process will be perceived as transparent and fair.
49. Rogers goes on to state that the assignment round appears too complex to it - and then suggests that this be resolved through a multiple stage automatic assignment process, based on pairing of blocks and intraregional relationships as assumed by Rogers. This purports to simplify the assignment phase, but we do not agree. In one small example, the proposed intraregional relationships could easily be challenged. Geographic continuity between Saskatchewan and Manitoba is given a first priority of preference while geographic continuity between Saskatchewan and Alberta is only seen as third priority. However, Saskatchewan does more business with Alberta than with Manitoba, which could lead to this priority being challenged. Unfortunately the priority as seen from any one region will not necessarily correspond with the priorities as seen from others. We believe this proposal also, along with most of Rogers' suggestions, is overly complex and should be disregarded.

50. We contend that Rogers is attempting to complicate this auction through proposals to change spectrum caps, restrict bidding on various combinations of blocks, and remove the final price cap guarantee from the clock round. While Rogers insists that their proposals must be taken as a whole, we cannot help feeling like the audience at a magic show. This vast array of proposals seems like the flashing lights, smoke and misdirection aimed at confusing us while Rogers puts a rabbit in its hat for a later revelation. These proposals should be denied.

51. We do note that there are some items proposed by Rogers that we find supportable. We have already noted our agreement that the core price adjustment formula needs modification, although not the modification proposed by Rogers. We agree that the rules must allow for extension of bidding periods; that rules governing exceptional circumstances could be developed; and that early access to software would be valuable.

ASSOCIATED ENTITIES

52. SaskTel repeats our agreement with the changes proposed by the Department.

53. We agree with the proposals of WIND that “for spectrum sharing arrangements concluded before the application date for the auction, the only information that should be made public is a narrative description of the arrangement”⁴¹ and that parties should be able to submit potential arrangements to the Department to ensure that the parties understand how such an agreement would be treated. We also agree with those who propose that these matters be resolved more than one month in advance of the actual auction. As we noted previously, the ramifications to the bidders of an unfavourable ruling may well require much more than one month to resolve.

SPECTRUM BOUNDARIES FOR LLOYDMINSTER, SASKATCHEWAN

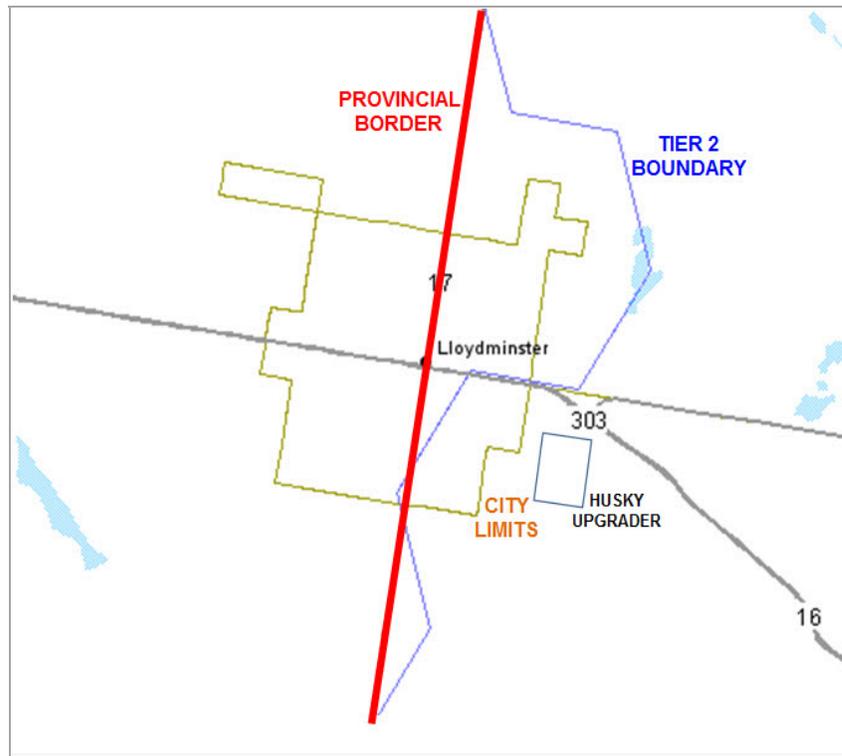
54. TELUS’ arguments in support of the current partitioning of Lloydminster shows a lack of understanding of Lloydminster’s history and the extent to which the residents of this city and the companies that serve them have accommodated living on a border. An overview of TELUS’ comments would lead one to suspect that the author of its comments had not been to the City of Lloydminster to explore its requirements.

⁴¹ WIND, paragraph 31

TELUS' arguments supporting the extension of the spectrum boundaries into Saskatchewan are targeted primarily to gaining a cost and market advantage over SaskTel, reducing competition for cellular service in Lloydminster. They are not targeted to the realities experienced by the residents of this city. SaskTel continues to urge the Department to honour the provincial boundaries of Alberta and Saskatchewan as they apply to spectrum in Lloydminster.

55. TELUS's overview in its June 25, 2012 Comments on the 700 MHz auction vastly oversimplifies the long history of providing telecommunications and other services to the residents of Lloydminster. As the provincial border has historically been the dividing line between the Saskatchewan spectrum (licensed to SaskTel) and the Alberta spectrum (licensed to TELUS), it is also our view that the Department's administrative changes to spectrum boundaries in Lloydminster spawned a long series of unneeded and unwanted commercial disagreements between TELUS and SaskTel which continue to impact Lloydminster residents.
56. First and foremost, TELUS's claim, in paragraph 11, that the Department's proposed boundaries take in the "entirety" of Lloydminster is blatantly untrue. As can be seen from Figure 1, the Department's changes to the boundary allow for the majority of Lloydminster's residents to be included, but continue to exclude many Saskatchewan residents and businesses. No artificially created hex line can ever be guaranteed to cover the entirety of a community of interest. Certainly a provincial boundary cannot do this either, however at least a provincial boundary is known, recognized and understood by all residents.
57. The proposed changes do not solve any of TELUS's arguments regarding coordination and potential interference. Network deployments still need to be coordinated between SaskTel and TELUS regardless of the boundary deviations (although technology has progressed to the point that this is much less of an issue). However, the boundary changes deviating away from the provincial border do create extra costs and inefficiencies as SaskTel continues to serve Lloydminster residents.

Figure 1. Tier 2 service area boundaries at Lloydminster.



58. Secondly, TELUS alleges that the inclusion of a greater portion of the City of Lloydminster residents into the Alberta tier “means that one spectrum licence holder provides service to all of the residents in Lloydminster....[I]t could lead to the City being served by two different mobile carriers...”⁴². This argument is wrong on so many fronts ignoring history, geography and overall federal government policy.

- i. Lloydminster residents have not encountered any “confusion” or “nuisance” because there are multiple cellular providers. Originally, SaskTel was the sole cellular service provider in Lloydminster until TELUS purchased Edmonton Tel, bringing a switch closer to Lloydminster. SaskTel has been providing cellular services to residents on all sides of Lloydminster since 1994 and continues to do so today. Currently, a resident living on the Alberta side of Lloydminster can be a SaskTel cellular customer with a 306 area code or a Saskatchewan resident can be a TELUS customer, **with neither paying roaming charges**. The decision to pick a provider is based on price and the resident’s overall community of interest.

⁴² TELUS comments, paragraph 12

Residents are able to choose providers and are seemingly quite able to deal with choice. Further, the federal government wishes to promote competition rather than sole provision of services. Competition policy assumes that residents of Canada have the wherewithal and capacity to make informed decisions on which cellular provider can serve their needs. While TELUS appears to view Lloydminster as their monopoly territory where competition is “confusing”, SaskTel contends that having access to “two different mobile carriers” will in fact give people choice.

- ii. There are no customer-impacting technical interference issues between the two sides of the border. UMTS and CDMA service along the entire Alberta/Saskatchewan border is seamless. Agreements made between SaskTel and TELUS while the spectrum border was (or was believed to be by both parties) the provincial border have allowed the two parties to jointly engineer an RF network with virtually no dropped calls experienced by customers as they move back and forth across the border. This provides for a seamless customer experience. TELUS and SaskTel have been able to coordinate their services and its surrounding technologies since the advent of cellular services. This coordination, along with the use of network optimization tools, allows for controlled handoffs and reduced interference in Lloydminster the same way it is controlled in a dense urban area such as downtown Toronto. Citing potential interference issues is merely TELUS' bid to develop a competitive advantage over SaskTel in this economically booming area. Again TELUS is throwing specious arguments in the air to mask their anti-competitive aims in this region.
- iii. TELUS justifies its position that it should control a larger portion of Lloydminster by stating that moving from one boundary to another “could become a daily nuisance for any person in Lloydminster who, for example, lived on one side of the provincial boundary but worked on the other”⁴³. If we were truly to follow this logic, the Saskatchewan Tier should be moved to cover the Alberta side of Lloydminster in that the major employers (Husky Upgrader, Husky Ethanol plant and the Meridian Power Station) are all located in Saskatchewan beyond the administrative spectrum boundary change initiated by the Department. SaskTel

⁴³ TELUS Comments, paragraph 12

continues to suggest that the provincial boundary remains the appropriate boundary despite TELUS's specious arguments.

59. The decision before the Department in placing the 700 MHz boundaries in Lloydminster is whether there is sustainable competition in this area or not. Moving the 700 MHz boundary further into Saskatchewan will make it far more inefficient and costly for SaskTel to provide service to potentially 'all' of the residents of Lloydminster. Over the past 20 years, TELUS and SaskTel have been able to negotiate roaming and technical issues to provide all of the residents with service. These equitable negotiations were made possible only because there was a level playing field between the two companies within Lloydminster itself. As soon as TELUS became aware of the Department's change to that playing field in 2010, TELUS coincidentally withdrew from a number of these agreements. Only with TELUS's lessening of cooperation, prompted by the Department's administrative changes to boundaries, did customers begin to be impacted.
60. SaskTel urges the Department to follow provincial boundaries for the Tiers in the 700 MHz band, allowing sustainable competition for all residents of Lloydminster on the grounds of history, geography and the federal government's pro-competition policy. TELUS's self-serving arguments to reduce competition and gain a market and a cost advantage over SaskTel should be treated accordingly. SaskTel has and continues to show its willingness to service and compete in Lloydminster. As such, we ask the Department to readjust the spectrum boundaries to the historic boundaries defined by the two provinces.

CONCLUSION

61. SaskTel remains concerned that the Department's recent proposals on both roaming and the 700 MHz spectrum are incongruent with the Federal Government's stated objectives of expanding cellular broadband to rural residents.
62. SaskTel, and a host of other industry players, point out that the Department's proposed conditions of licence provide no incentives for new companies to invest or expand into rural areas. Only incumbent providers who already serve rural areas have any real obligations under the proposed COL. Even for most of those

incumbents their obligations rest within the status quo of their current HSPA deployment.

63. Along with others, SaskTel is requesting that the Department re-examine its proposed COL to include a more aggressive approach to service of rural residents. Our proposals include higher population coverage requirements, use of more than status quo urban HSPA coverage and new rules to facilitate sharing of spectrum which is otherwise wasted. Under the current COL proposals vast amounts of scarce spectrum will remain unused and inaccessible to rural Canadians.
64. At the very least, SaskTel urges the Department to explore a 'use it or share it' philosophy that promotes the prompt and efficient use of this scarce public resource for rural residents.
65. The second factor in the proposed 700 MHz auction rules which restricts rural deployment is the very structure of the auction itself. The CCA format has never been used in an auction which included regional service providers – the providers who most often serve rural Canadians. The currently proposed CCA rules make it unlikely that regional providers will be able to obtain access to the 700 MHz spectrum. Regional players are integral to the overall Canadian telecommunications system and should not be discarded because there is a new, novel auction system developing on the global stage. The CCA auction system is a work in progress and wherever it has been used it has needed to be modified to fit market circumstances and to meet national goals beyond just the maximization of revenues for the public purse. Canada should be no different.
66. SaskTel has suggested a number of potential changes to the CCA aimed primarily at minimizing uncertainty and strengthening the clock round of the auction. In particular, SaskTel suggests changes to the supplementary round which in, addition to distributing any unallocated spectrum, would guarantee, at the very least, that bidders be able to retain their winnings from the clock round.
67. Lastly, SaskTel addresses the issue of Lloydminster. The last redrawing of the spectrum map has caused divisions between the two primary providers in this area (TELUS and SaskTel) and has been contrary to the interests and traditions of the

residents of Lloydminster. SaskTel urges the Department to align spectrum boundaries with the Saskatchewan-Alberta provincial border.

68. In conclusion, SaskTel reiterates its call for the Department to refocus on the needs of rural residents. In the interests of rural Canadians, SaskTel appeals to the Department to modify its COL and auction methodology for the 700 MHz spectrum. These modifications can be made within the context of the two other objectives of this auction, i.e. to promote urban competition and to maximize public revenues for this scarce resource.

69. SaskTel thanks the Department for the opportunity to provide comments to this consultation.