

**Canada Gazette Notice No. SLPB-002-15**

***Consultation on a Licensing Framework for Residual  
Spectrum Licences in the 700 MHz and AWS-3 Bands***

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**Comments**

**of**

**Bell Mobility Inc.**

**25 May 2015**

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## **1.0 INTRODUCTION**

1. In accordance with the procedure set out in Industry Canada (or the Department) Notice No. SLPB-002-15, *Consultation on a Licensing Framework for Residual Spectrum Licences in the 700 MHz and AWS-3 Bands*, as published in the *Canada Gazette*, Part 1 dated 9 May 2015 (the Notice), Bell Mobility Inc. is pleased to provide the following Comments. For convenience and ease of reference, we will address the issues raised by the Department for comment in the order of their appearance in the Notice.

## **2.0 SPECIFIC PROPOSALS**

**P1 Industry Canada is seeking comments on its proposals to:**

- a. license the northern 700 MHz and AWS-3 licences on a Tier 4 basis; and**
- b. disaggregate block GHI into three separate blocks of 5 + 5 MHz each for all of the AWS-3 spectrum licences being offered through this auction process (Saskatchewan, Manitoba and the North).**

2. We do not oppose the proposals to licence the northern 700 MHz and AWS-3 licences on a Tier 4 basis and to disaggregate block GHI into three blocks of 5 + 5 MHz each for all of the AWS-3 spectrum licences being offered in this auction process.

**P2 Industry Canada is seeking comments on its proposals to:**

- a. eliminate the competitive measure which set aside block GHI for operating new entrants for all of the AWS-3 licences available in this process; and**
- b. maintain the spectrum caps on the 700 MHz licences.**

3. We do not agree in principle with the use of interventionist measures in spectrum auctions due to the inefficient distortions to the final allocation that can arise. With the conclusion of the 2500 MHz spectrum auction, Industry Canada has achieved its objective of getting a substantial amount of commercial mobile spectrum in the hands of new competitors.

As stated by the Industry Minister:

With the conclusion of the 2500 MHz auction, the amount of spectrum available to provide mobile services to consumers has grown by almost 60 percent since early 2014. This is the largest amount of spectrum ever released in such a short time in Canada, allowing Canadians and their families to benefit from the latest technologies and world-class services.

The amount of commercial mobile spectrum in the hands of new competitors is now at approximately 25 percent of the total available—a massive increase from 2006, boosting competition in Canada's wireless sector.<sup>1</sup>

4. New competitors have now secured both low-band (700 MHz) and higher-band spectrum (AWS-1, AWS-3 and 2500 MHz). It is now time for Industry Canada to return to a light-handed regulatory approach which has a greater reliance on market forces. This is consistent with the intent and spirit of Industry Canada's *Spectrum Policy Framework for Canada's* enabling guidelines (a) and (d) which state that market forces should be relied upon to the maximum extent feasible, and regulatory measures, where required, should be minimally intrusive, efficient and effective, respectively.<sup>2</sup> Market forces, in short, will ensure that those willing and able to put the spectrum to its best use will bid for and acquire spectrum.

5. Therefore, we support the proposal to allow all bidders to bid on all blocks G, H and I of the AWS-3 licences available in this process. Moreover, we do not support the proposal to maintain the spectrum caps on the 700 MHz licences in this auction process. Similar to the AWS-3 licences and consistent with the northern licences in the 2500 MHz band where the spectrum aggregation limit does not apply, we submit that all bidders be permitted to bid on the 700 MHz licences in this auction process and thus, the spectrum caps be removed.

**P3 Industry Canada is seeking comments on its proposals to:**

- a. **reduce the deployment requirements for the AWS-3 licences in the North to 20% of the Tier 4 service areas;**
- b. **reduce the timelines to reach the deployment levels in Saskatchewan and Manitoba from eight years to five years;**
- c. **apply the current 20% deployment levels for the 700 MHz licence to each of the Tier 4 licence areas.**

6. We do not oppose the proposed deployment requirements for the AWS-3 and 700 MHz licences.

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<sup>1</sup> Industry Canada News Release, *Auction results a win for rural Canadians*, 12 May 2015, available at <http://news.gc.ca/web/article-en.do?nid=973329>.

<sup>2</sup> Industry Canada, *Spectrum Policy Framework for Canada*, June 2007, available at <http://www.ic.gc.ca/eic/site/smt-gst.nsf/eng/sf08776.html#s44>.

**P4 Industry Canada is seeking comments on its proposal to use the sealed-bid auction format for the auction of residual licences in the 700 MHz and AWS-3 bands and on the timelines proposed in the Proposed Table of Key Dates.**

7. The primary objective of auctions is efficiency, or assigning the spectrum to those that value it the most. We submit that the most efficient auction design maximizes openness (which we define as transparency and the revelation of information about valuations<sup>3</sup>) and minimizes administrative burden (which we define by complexity and resource costs from both the Department's perspective and the bidders<sup>4</sup>). By its very design, sealed-bid auctions are not open. There is no opportunity for the price discovery process that occurs in ascending-bid auction formats such as combinatorial clock (CCA) and simultaneous multiple-round ascending auctions (SMRA).

8. The efficiency benefits of price/value discovery that occurs through open bidding (i.e. not sealed-bid) is realized by the Department when it notes that "both CCA and SMRA formats provide stakeholders with the benefit of price discovery through the multiple rounds."<sup>5</sup> The efficiency benefits of open, ascending-bid auctions are identified by Cramton (1997):

An essential advantage of open bidding is that the bidding process reveals information about valuations. This information promotes the efficient assignment of licences, since bidders can condition their bids on more information. Moreover, to the extent that bidder values are affiliated, it raises auction revenues ..., since the winner's curse is reduced. Bidders are able to bid more aggressively in an open auction, since they have better information about the item's value.<sup>6</sup>

9. Therefore, we prefer that Industry Canada adopt auction formats that allow for ascending-bids. However, we also understand the administrative burden that the Department is seeking to avoid in this particular situation which only offers a limited number of licences in the auction process.<sup>7</sup> As a result, for this particular auction process, we do not object to the proposal of using a sealed-bid auction format for the auction of residual licences in the 700 MHz

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<sup>3</sup> Cramton, P., (2002), "Spectrum Auctions" *Handbook of Telecommunications Economics*, Vol. 1, Cave, Majumdar and Vogelsang, (eds.), Elsevier, 605-639, page 609, notes that information about valuations promotes the efficient assignment of licences.

<sup>4</sup> The more complex and resource intensive the auction format, the less straight forward and less transparent the auction will be, and the more likely that bidders will make mistakes and/or develop inefficient bidding strategies.

<sup>5</sup> Notice, paragraph 37.

<sup>6</sup> Cramton, P., (1997) "The FCC Spectrum Auctions: An Early Assessment," *Journal of Economics and Management Strategy*, 6(3): 431-495, at page 435.

<sup>7</sup> Notice, paragraph 37.

and AWS-3 bands. Finally, we have no comment on the timelines proposed in the Proposed Table of Key Dates.

**P5 For the AWS-3 licences, Industry Canada is seeking comments on its proposal to allow package bidding for blocks G, H and I within each service area, with the exception of packages containing the blocks G and I as a combination.**

10. In this particular auction of residual licences in the 700 MHz and AWS-3 bands we do not object to the proposal allowing for package bidding for blocks G, H and I within each service area for the AWS-3 licences, and support the exception that packages cannot include the blocks G and I as a combination in order to ensure a bidder does not win non-contiguous spectrum.

**P6 Industry Canada is seeking comments on its proposal to use a second-price rule, including bidder-optimal core prices and use of the "nearest Vickery" approach, for the auction of residual licences in the 700 MHz and AWS-3 bands.**

11. A key objective of spectrum auctions is to ensure that Canadians receive a fair return for the use of valuable spectrum. The Notice touches on this consideration by noting that "under a first-price rule, the bidder has a strong incentive to bid less than its true value, which can lead to inefficient outcomes."<sup>8</sup> In general, in second-price auctions it is a dominant strategy to bid truthfully and as a result, the allocations will be efficient.<sup>9</sup> This result is noted in the Notice: "bidders, knowing that they will only be required to pay the minimum amount necessary to win their licence or package, will have the incentive to bid truthfully during the entire auction."<sup>10</sup> Therefore, we support the proposed use of the second-price rule for this particular auction of residual licences in the 700 MHz and AWS-3 bands.

**P7 Industry Canada is seeking comments on the proposed opening bids as presented in tables 4 and 5.**

12. We have no comment on the proposed opening bids as presented in Tables 4 and 5 of the Notice.

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<sup>8</sup> Notice, paragraph 45.

<sup>9</sup> Krishna, V. (2010). *Auction Theory*, 2<sup>nd</sup> Edition, Academic Press, pages 188 and 189.

<sup>10</sup> Notice, paragraph 45.

**P8 Industry Canada is seeking comments on its proposed rules regarding Affiliated and Associated Entities, which would apply to applicants and bidders in the upcoming auction of residual spectrum licences in the 700 MHz and AWS-3 bands.**

13. We have no comment on the proposed Affiliated and Associated Entities rules that would apply to the bidders in the auction of spectrum licences in the 700 MHz and AWS-3 bands.

**P9 Industry Canada is seeking comments on the rules prohibiting collusion, which would apply to bidders in the upcoming auction of residual spectrum licences in the 700 MHz and AWS-3 bands.**

14. We have no comment on the proposed rules prohibiting collusion that would apply to bidders in the auction of spectrum licences in the 700 MHz and AWS-3 bands.

**P10 Industry Canada is seeking comments on the proposed auction process for the auction of residual licences in the 700 MHz and AWS-3 bands.**

15. We support the proposed auction process for the auction of residual licences in the 700 MHz and AWS-3 bands, but request that the Department provide the filing date for the clarification questions as soon as possible.

**P11 Industry Canada is seeking comments on the proposed renewal process for spectrum licences in the 700 MHz and AWS-3 bands.**

16. We have no comment on the proposed renewal process for spectrum licences in the 700 MHz and AWS-3 bands.

### **3.0 CONCLUSION**

17. Bell Mobility appreciates the opportunity to provide our views on the licensing framework for residual spectrum licences in the 700 MHz and AWS-3 Bands.

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