

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
Expanding the Economic and Innovation)	GN Docket No. 12-268
Opportunities of Spectrum Through Incentive)	
Auctions)	
)	
Comment Sought on Competitive Bidding)	AU Docket No. 14-252
Procedures for Broadcast Incentive Auction)	
1000, Including Auctions 1001 and 1002)	

**REPLY COMMENTS OF THE
NATIONAL ASSOCIATION OF BROADCASTERS**

March 13, 2015

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Summary

The FCC's announced date for commencing the auction, January 2016, is fast approaching. The best way for the Commission to ensure both a timely start and a successful result is for it to truly embrace the virtues of simplicity, market forces and transparency. The Commission should also strive to create a robust and long-lasting band plan and refrain from implementing mechanisms that have the sole purpose of depressing payments to participating broadcasters.

It is clear not only from the comments in this docket but from the Public Notice itself that the Commission's current auction approach is far too complex. Perhaps the best example of this is the Commission's proposal to allow extensive variation in the amount of spectrum it repurposes across markets. Despite the remarkable success of the AWS-3 auction, the Commission continues to pursue a variable band plan that has introduced tremendous uncertainty into the auction process. As comments from a number of wireless service providers confirm, impairing the 600 MHz band by relocating television stations in the band eliminates the purported fungibility of spectrum blocks, undermines bidder confidence, and will likely depress bidding. Market variation is a concept so complex that it accounts for a majority of the Comment PN, has spawned a new OET bulletin and requires two distinct methodologies (one for use during the auction, and one after) for predicting inter-service interference. Moreover, because the problems resulting from market variation is so complex, one of those methodologies makes wildly unrealistic assumptions due to computational limitations. The FCC's current plan does not maximize bidding, revenues, or efficiency.

The Commission's ongoing efforts to reduce compensation paid to broadcasters in the auction – through Dynamic Reserve Pricing, arbitrary discounts for certain types of

bids and a decision to keep broadcasters entirely in the dark during the auction – not only add more layers of complexity, they also abandon the market forces Congress sought to unleash in the Spectrum Act. The FCC would be naïve to believe that broadcasters will blindly trust the process installed “under the hood” of the auction when the Commission is plainly attempting to artificially depress reverse auction prices. The entire thrust of the Commission’s outreach to broadcasters has been the financial opportunities the auction presents. The specter of government efforts to engineer prices paid to broadcasters undercuts that effort, suggesting that broadcasters will only be allowed to realize financial opportunities to the extent the FCC staff thinks they are appropriate.

NAB continues to urge the Commission to look closely at the reasons behind the success of the AWS-3 auction. That auction not only demonstrates that spectrum is an asset in which wireless companies and spectrum speculators will invest, but also that they will do so when the rules are clear and simple. But with each additional layer of complexity, there are growing threats to the ultimate success of this important auction. The record in this proceeding demonstrates that the Commission should limit unnecessary mechanisms that will skew the market nature of the auction, and instead let the auction be the success it can be.

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**REPLY COMMENTS OF THE
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The National Association of Broadcasters (NAB)¹ hereby replies to comments submitted in response to the Public Notice seeking input on procedures and design issues for the broadcast spectrum incentive auction.² While the 25 parties submitting initial comments in this proceeding raised a variety of issues, consensus has emerged on core principles. First, the Commission must offer as many blocks of unimpaired, paired spectrum as possible in the forward auction to drive revenues critical to the auction's success. Second, the Commission should make broadcaster participation easy and attractive by allowing market forces to determine the outcome of the reverse auction.

¹ The National Association of Broadcasters is a nonprofit trade association that advocates on behalf of free local radio and television stations and broadcast networks before Congress, the Federal Communications Commission and other federal agencies, and the courts.

² *Expanding the Economic and Innovation Opportunities of Spectrum Through Incentive Auctions, Comment Sought on Competitive Bidding Procedures for Broadcast Incentive Auction 1000, Including Auctions 1001 and 1002*, Public Notice, GN Docket No. 12-268, AU Docket No. 14-252, FCC 14-191 (rel. Dec. 17, 2014) (Comment PN).

Third, the Commission should favor simplicity and transparency, rather than complexity and opacity. As the Commission finalizes rules to pave the way for a successful incentive auction in early 2016, it should embrace this emerging consensus.

I. MARKET VARIABILITY INTRODUCES SIGNIFICANT RISK OF AUCTION FAILURE

The record is replete with comments asserting that repacking television stations in the 600 MHz wireless band complicates the auction and introduces unnecessary risk. This issue alone has required the FCC to develop a new OET Bulletin (OET Bulletin 74) for purposes of calculating inter-service interference and two methodologies for predicting inter-service interference (ISIX), one for use in the auction and one for use afterwards, because the problem is so complex it bumps up against computational limitations.³

Inter-service interference caused by market variability is forcing the Commission to propose different license categories for forward auction bidders, rather than simple fungible blocks. As a result, forward auction bidders will be seeking licenses in Category 1 (with up to 15 percent impairment) or Category 2 (with up to 50 percent impairment). They must also factor into their decisions the fact that the predictions based on the ISIX methodology used in the auction for the licenses they win may not ultimately be

³ See *Office of Engineering and Technology Seeks To Supplement The Incentive Auction Proceeding Record Regarding Potential Interference Between Broadcast Television And Wireless Services*, Public Notice, 29 FCC Rcd 712, 725 n. 12 (rel. Jan. 29, 2014) (adopting a hypothetical 10-kilometer spacing for base station transmitting sites because it “approaches a practical limit on computation.”); see also Comment PN, ¶ 81, n. 81 (aggregating ISIX data to a county level because at a more granular level “the number of decision variables and constraints that must be considered would increase to an unsolvable number.”)

accurate.⁴ All of this complexity, and all of this effort, is necessary *solely* due to the FCC's undying commitment to allow market variation in the auction.

At this point, with the incentive auction to begin in as little as 10 months, we urge the Commission to consider the bigger picture. As Commissioner Rosenworcel has aptly observed, "we need to ask if instead of trying to maximize licenses through a complex architecture we should be trying to attract more participation through simplicity of design."⁵ Critically, NAB's analysis of the effects of repacking television stations in the 600 MHz band suggests that these objectives are not at all in conflict; that is, avoiding repacking television stations in the 600 MHz band may allow the Commission to offer *more* licenses in the markets where demand is highest.

At the very least, if the Commission insists on pursuing some measure of market variability, the Commission should abandon its overly permissive standard for market variability.⁶ The Commission's proposal, to allow impairments covering up to 20 percent of "weighted" population, would allow widespread variation. This could have severe ramifications for the success of the forward auction, potentially drastically reducing the amount of spectrum the Commission has available to offer wireless carriers.

In particular, NAB has submitted an analysis demonstrating that the Commission's proposed 20 percent variability standard would allow significant impairments in major

⁴ The assumptions built into the ISIX methodology that will be employed during the auction bear no resemblance to real wireless network deployment, and the methodology includes factors to minimize the extent of predicted impairment.

⁵ Comment PN at 161.

⁶ Comments of the National Association of Broadcasters at 11-15, GN Docket No. 12-268, AU Docket No. 14-252 (filed Feb. 20, 2015) (NAB Comments).

markets, including New York, Boston, Philadelphia, Washington, D.C., Los Angeles, and San Francisco.⁷ This is nowhere near a nationwide band plan. It will result in inter-service interference disputes that will last for decades. It will also threaten the viability of the auction, as the Commission will have only a few blocks of paired, unpaired spectrum to offer in the forward auction in markets where demand for additional spectrum is highest.

The record confirms other parties share this concern. AT&T states that the introduction of inter-service interference in the 600 MHz band will negatively impact the forward auction and inevitably reduce revenues.⁸ Verizon similarly urges the FCC to provide forward auction bidders with as much certainty as possible, stating offering unpaired spectrum across most of the nation will best ensure high forward auction participation and revenue.⁹ Indeed, virtually every party addressing the issue recommended modification of the proposed 20 percent variability threshold.¹⁰ The Commission should heed the input of stakeholders on this issue, and adopt significant modifications to its opening proposal.

As set forth in its opening comments, NAB proposes to establish a truly “near-nationwide” band plan that allows impairments of up to three percent of the population.¹¹ This standard would allow the Commission to impair the 600 MHz band in, for example,

⁷ Letter from Patrick McFadden to Marlene H. Dortch, GN Docket No. 12-268, AU Docket No. 14-252 (filed March 13, 2015).

⁸ Comments of AT&T at 17, GN Docket No. 12-268, AU Docket No. 14-252 (filed Feb. 20, 2015).

⁹ Comments of Verizon at 5-6, GN Docket No. 12-268, AU Docket No. 14-252 (filed Feb. 20, 2015).

¹⁰ See, e.g., Comments of AT&T at 21-24; Comments of Verizon at 4-6; Comments of T-Mobile at 17-20; Comments of CTIA at 6-8; Comments of Media General, Inc. at 5; Comments of LocusPoint Networks, LLC at 10.

¹¹ NAB Comments at 10.

New York or Los Angeles, but not both. Interestingly, two of the national wireless carriers on which forward auction revenues will depend urge the FCC to offer *no* impaired blocks of spectrum in the majority of the country, with exceptions made only in the border regions. In practice, NAB believes this approach is largely consistent with NAB's proposal, as a three percent cap on impairments would allow flexibility in the border regions while not allowing impairments in the majority of the country. Such an approach would establish a truly nationwide band plan in the great majority of the country, but allow exceptions in the border regions. This plan will maximize certainty for forward auction bidders, which will drive bidding and revenues. It will also avoid absurd results, such as a band plan that only allows the Commission to offer two or three paired blocks of unimpaired spectrum in the markets where demand is highest.

As an important addition, however, NAB urges the Commission to adopt some limits on variability in the amount of paired spectrum offered *among* markets. It simply makes no sense to recover 84 MHz of spectrum in New York and Los Angeles, and 144 MHz in Utah and Oregon at the expense of low power stations and translators and the viewers who rely on them. Such a standard will allow the FCC to offer truly fungible blocks of spectrum while avoiding gratuitously taking spectrum in markets with little or no demand at the expense of low power and translator stations and their viewers.

Finally, while the Commission should aim to avoid repacking broadcasters in the 600 MHz band, if it is necessary to do so in limited cases, NAB agrees with those comments urging the Commission to avoid repacking broadcasters in the duplex gap.¹² If broadcasters are relegated to the duplex gap, the FCC will be eliminating the scrap of

¹² CTIA Comments at 5; Verizon Comments at 19; Shure Comments at 4.

reserved spectrum the Commission has maintained for wireless microphones necessary to provide coverage of breaking news. In this proceeding, the FCC has already stripped news gathering operations of a large share of spectrum used for wireless microphones, and placing stranded television stations in the duplex gap would be the final nail in the coffin.

Only one commenter, AT&T, supported relocating broadcasters to the duplex gap.¹³ Notably, AT&T does not address the effect its proposal will have on wireless microphones. AT&T argues that placing low power unlicensed users in the duplex gap risks causing significant interference to wireless operators.¹⁴ That argument, however, does not address the proposal to allocate the duplex gap exclusively for use by *licensed* wireless microphones, and to allow such operation only in a 4 MHz slice of the duplex gap, permitting guard bands to protect against interference to LTE uplink and downlink operations. Because leaving the duplex gap entirely fallow would be spectrally inefficient, NAB continues to urge the Commission to avoid relocating broadcasters in the duplex gap, and to reserve the duplex gap for exclusive use by wireless microphones.

As NAB has repeatedly urged, the recent success of Auction 97 provides the Commission with a \$40 billion blueprint for success based on straightforward bidding on consistent, nationally available spectrum. To translate this success to the incentive auction, the Commission must keep the auction rules as simple as possible. Maximizing the amount of paired, unpaired spectrum the FCC can offer at auction through a band-

¹³ AT&T Comments at 12, 28.

¹⁴ *Id.* at 15.

plan that is truly “near-nationwide” will result in increased revenues, increased payouts to broadcasters, and more usable spectrum for wireless carriers.

II. DYNAMIC RESERVE PRICING IS A RECIPE FOR REDUCED BROADCASTER PARTICIPATION, INCREASED IMPAIRMENT AND LOWER AUCTION REVENUES

Dynamic Reserve Pricing (DRP) is a complex, confusing and fundamentally unfair solution in search of a problem. In a descending clock auction with opening bid prices set by the Commission, there already exists a firm cap on the compensation broadcasters can receive for their spectrum; no station can ever receive more than its opening bid. It makes no sense, therefore, why the Commission would employ a mechanism that allows it to universally reduce prices to broadcasters when it otherwise should be accepting their bids. The Commission has offered no compelling rationale why it is proposing to intervene in the market and transform Congress’s market-based incentive auction into one where the government chooses the appropriate prices for broadcasters.

The overwhelming majority of commenters addressing this issue correctly conclude that, if the Commission adopts Dynamic Reserve Pricing, it would undermine the auction’s chances for success. This mechanism adds complexity and uncertainty for broadcasters otherwise interested in participating in the auction.¹⁵ Specifically, it creates the unmistakable impression the Commission will not treat broadcasters fairly and allow them to realize the financial opportunities the Commission has been trumpeting in its travels across the country.

¹⁵ See, e.g., Comments of AT&T at 41-42; Comments of Expanding Opportunities for Broadcasters Coalition (EOBC) at 33-36; Comments of LocusPoint Networks, LLC at 7-8; Comments of Media General, Inc. at 3; Comments of Milachi Media, LLC at 5; Comments of Trinity Broadcasting Network at 4.

Even worse, the proposed use of DRP drives impairments towards its unreasonable 20 percent threshold, increasing the number of stations that are relocated in the 600 MHz band. AT&T aptly notes that, to the extent there is any “headroom” underneath the FCC’s proposed 20 percent impairment limit, DRP “will most likely fill most or all of that headroom.”¹⁶ Viewed in the context of the Commission’s auction proposals, DRP leads to the highest common denominator of variability. It ensures the Commission will wind up with market variability at or close to 20 percent impairment, which, as NAB has already shown, is a level of impairment that may threaten the success of the auction as a whole.

Only one party, the Competitive Carriers Association (CCA), supported the use of DRP. According to CCA, “judicious” use of DRP “will increase the likelihood of a successful auction by helping to balance the bid amount that broadcasters will receive with the amount that they would be willing to accept.”¹⁷ CCA’s explanations for why this might be so are unpersuasive.

First, CCA claims that DRP will prevent broadcasters from taking “an excessively high price offered to them in an auction where there are effectively no competing bidders.”¹⁸ Yet, as NAB demonstrated in its comments, that rationale cannot justify DRP, as the FCC expressly rejected the argument, advanced by Sinclair Broadcast Group, that the Spectrum Act requires more than one competing broadcast bidder in each market.¹⁹

¹⁶ AT&T Comments at 22.

¹⁷ Comments of Competitive Carriers Association at 12.

¹⁸ *Id.* at 13.

¹⁹ NAB Comments at 3-4.

Second, CCA argues that use of DRP will allow the Commission to set high opening bid prices to ensure high broadcaster participation.²⁰ This claim rests on the ridiculous foundation that broadcasters are so ignorant that they would participate in an auction solely because of inflated and illusory prices, all the while not realizing that the FCC can DRP them into submission.

More fundamentally, CCA's advocacy once again runs afoul of the chutzpah doctrine.²¹ In the very same pleading where it advocates use of DRP for broadcasters, CCA advocates expansion of the spectrum reserve to include a market's three *least impaired* licenses for the benefit of CCA's members.²² This unquestionably skews the market and may well depress bidding for those licenses – which could ultimately threaten the success of the auction. If the Commission seriously considers adopting DRP, it must adopt a companion mechanism, Dynamic Reserve Spectrum Pricing (DRSP), for carriers, such as CCA's members, that stand to benefit from the auction of reserved spectrum for which larger carriers cannot compete. After all, the Commission should be concerned not merely with establishing a market price through competitive pricing, but with *finding the highest price CCA's members would be willing to pay*. Thus, for example, if Carrier A and Carrier B are bidding on reserve spectrum, and Carrier B is no longer willing to bid at a certain price, Carrier's A's price should continue to rise until the price per MHz-pop of the license matches comparable, non-reserve spectrum. This will “provide flexibility to

²⁰ CCA Comments at 13.

²¹ See, e.g., *Caribbean Shippers Ass'n v. Surface Transp. Bd.*, 145 F.3d 1362, 1365, n. 3 (D.C. Cir. 1998); *Marks v. Commissioner*, 947 F.2d 983, 986 (D.C. Cir. 1991).

²² CCA Comments at 21.

conduct price discovery on [CCA member demand] curves that are, at best, poorly understood.”²³ DRSP will help ensure that CCA’s members do not reap a “windfall” in the form of spectrum won at below-market prices, increasing revenues and thus making it more likely the auction can close.

The Commission is at an inflection point with respect to broadcaster participation. The FCC has done yeoman’s work to drum up interest in the auction, putting out estimated high-end payouts, explaining its proposal for calculating opening bids months before the auction and getting outside the Beltway to take its pitch on the road. DRP, which is completely unnecessary, can undo much of that good work. Even a cursory examination of the record of this proceeding reveals not only an overwhelming consensus against DRP, but a specific consensus among *broadcasters*, the very parties the Commission wants to encourage to participate in the auction. NAB strongly urges the Commission to abandon DRP altogether.

III. THE FCC SHOULD PROVIDE MORE INFORMATION TO BROADCASTERS

The FCC’s proposals for restricting information available to broadcasters during the auction severely compound the potential deleterious effects of using DRP on broadcaster participation. Indeed, the Commission’s proposals to restrict information available to broadcasters to only the price they are currently offered would amount to conducting the reverse auction in a black box.

Under the Commission’s proposal, stations will not know how many bidders they are competing against in a given stage, will not know what the spectrum clearing target is

²³ *Id.* at 13.

and will not know whether DRP is “on” or has been switched off. NAB agrees with commenters warning that keeping broadcasters completely in the dark during the auction risks discouraging participation.²⁴

In stark contrast, the Commission is providing *substantial* information to bidders participating in the forward auction. These bidders will know the clearing target at each stage, the total dollar amount needed to satisfy the final stage rule after the reverse portion of the auction ends at each stage and the identity of other forward auction applicants that have selected geographic areas that overlap with the applicant's own selection.²⁵ This is a remarkable asymmetry that is fundamentally unfair to participants in the reverse auction.

For broadcasters to participate in the auction, they must know more than simply their opening bid price. They must believe that the Commission will treat them fairly and allow market prices, rather than internal Commission deliberations concerning “fair” value, to determine financial outcomes. The Commission should provide broadcasters with additional information, including, at a minimum, the clearing target at each stage, the number of competitors in a station's market that remain active, and whether DRP procedures are currently in effect or not.

Moreover, due to the complexity of the auction, the FCC can best serve transparency by ensuring that its auction software is publicly vetted. Again, no stakeholder is well-served by an auction that fails or stops mid-stream due to software issues, or by a lack of confidence in software developed entirely out of the public eye.

²⁴ EOBC Comments at 40.

²⁵ Comment PN at ¶¶ 139-140.

Chairman Wheeler has stated that, “Only when our software and systems are technically ready, user friendly, and thoroughly tested, will we start the auction.”²⁶ The Commission should promptly re-commit to publicly releasing its software, and publicly testing it, well in advance of the auction.

IV. THE COMMISSION SHOULD ELIMINATE ITS PROPOSED DISCOUNTS FOR UHF TO VHF BIDS

NAB agrees with the comments submitted by Broadcasters for VHF Pricing Parity that the Commission should not adopt its proposed discounts for bids to relocate from the UHF to VHF bands.²⁷ The Commission should retreat from its initial proposal for at least three reasons.

First, the Commission’s focus is on clearing UHF channels to create contiguous blocks of spectrum to auction to wireless carriers. Accordingly, the Commission should be wholly agnostic as to whether a channel is cleared via a relinquishment bid, or a bid to move to the VHF band. After all, the Commission is not proposing to discount bids submitted pursuant to channel sharing arrangements – why should it treat moves to the VHF band any differently? Elimination of the discounts will encourage broadcasters interested in remaining on the air but willing to move to the VHF band to participate in the auction. The Commission has repeatedly stressed that broadcaster participation in the auction is critical to the auction’s chances for success; it should not discourage participation through arbitrary reductions in potential proceeds from the auction.

²⁶ Tom Wheeler, The Path to a Successful Incentive Auction (Dec. 6, 2013) available at: <http://www.fcc.gov/blog/path-successful-incentive-auction-0>.

²⁷ Joint Comments of Broadcasters for VHF Pricing Parity at 3-9.

Second, encouraging UHF to VHF bids will help preserve television service. Stations interested in moving to VHF bands should not be punished because they wish to continue serving their communities; they should be *encouraged* to do so. UHF to VHF bids are the closest thing in the auction to the “win-win-win” potential originally envisioned. A broadcaster remains on the air, receives proceeds from the auction, can continue to fully serve the public with a 6 MHz channel, wireless carriers get more spectrum and the Treasury get excess proceeds.

Third, the Spectrum Act does not give the FCC the discretion to apply its proposed discounts. The Spectrum Act specifies that the Commission “shall conduct a reverse auction to determine the amount of compensation that each broadcast television licensee would accept in return for voluntarily relinquishing some or all of its broadcast television spectrum usage rights.”²⁸ The Act then specifies three eligible relinquishments: giving up all rights; giving up UHF rights to move to the VHF band; and channel sharing.²⁹ Each of those options gives the Commission precisely the same thing: a vacant UHF channel that makes spectrum available for auction.

At no point did Congress give any indication that these types of relinquishment should be priced differently. Rather, Congress expressly stated that the FCC must conduct a reverse auction to determine broadcaster compensation and then told the Commission that it must allow three types of participation. The statute does not contemplate that the FCC could effectively value these options at different levels, and

²⁸ Pub. L. No. 112-96, § 6403(a)(1), 126 Stat. 156, 226 (2012).

²⁹ *Id.* at § 6403(a)(2).

indeed, doing so would only undermine one of the purposes of the Act; namely, to repurpose spectrum in a voluntary auction.

The Commission's lone justification for discounting UHF to VHF bids is that "a winning bidder electing one of the VHF options will retain a full six megahertz channel, and thus should not receive the same compensation as a bidder that relinquishes its rights to a six megahertz channel."³⁰ But this is just a statement, not an argument. Why should a broadcaster receive less money if it was relinquishing the same amount of UHF spectrum? Where in the Spectrum Act does it suggest that, if a broadcaster ends up with some or all of its 6 MHz that it should be compensated at a lower level? The Commission has not provided an adequate explanation as to why this approach is wise, let alone lawful.

At bottom, the proposed discounts are another example of the FCC's inappropriate preoccupation with making sure that broadcasters do not receive "too much" money in the auction. As NAB explained in its opening comments with respect to Dynamic Reserve Pricing, the Commission is not buying television stations in the reverse auction – it is buying spectrum assumed to be worth orders of magnitude more to wireless carriers.³¹ This is precisely why the Commission is not tying opening bid prices to the going concern value of television stations. The quest to make sure broadcasters do not get "too much" out of the auction is irrational, will discourage participation and is untethered to the Commission's ostensible goals of repurposing spectrum for mobile broadband.

³⁰ Comment PN at ¶ 100.

³¹ NAB Comments at 4.

V. CONCLUSION

With the incentive auction scheduled to begin in less than a year, the Commission must focus its efforts on making the auction as simple and foolproof as possible. At this point, what the Commission should most fear is an auction that collapses under the weight of well-intentioned, but ultimately misguided, policies aimed at creating a theoretically “perfect” auction. This is not an academic exercise, and the Commission should not pursue lofty theoretical concepts impossible to implement in practice.

We urge the Commission to chart a successful course by following the roadmap used for Auction 97: offer unimpaired spectrum in a nationwide band plan and allow market forces to dictate the outcome. That approach generated more than \$40 billion because it was simple, it was transparent, and it had few possible points of failure. The incentive auction is already a Rubik’s Cube, and there is no reason to try to solve it standing on one’s head and using only one hand.

Respectfully submitted,

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