

**Oral Statement
Of**

**The Honorable Kevin J. Martin
Chairman
Federal Communications Commission**

**Before the
Committee on Energy and Commerce
U.S. House of Representatives**

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Introduction

Good morning Chairman Dingell, Chairman Markey, Ranking Member Barton, Ranking Member Stearns, and Members of the Committee.

Thank you for inviting me to be here with you today to discuss our reasoning and the results of our most recent auction.

The 700 MHz auction achieved a number of significant milestones. The wireless networks to be deployed with these licenses will be significantly faster and will extend to urban and rural areas alike. They will bring increased competition to a broadband sector currently served primarily by DSL and cable. And wireless consumers will now be able to use the wireless devices and applications of their choice.

There have been some significant misperceptions about our auction, and I appreciate the opportunity this morning to debunk what I would call the “Six Myths of the 700 MHz Auction.”

Myth 1: The auction was not a success

The auction was the largest in FCC history, raising a record \$19.6 billion in bids. Even in a difficult economic climate, revenues raised in this auction well exceeded congressional estimates – nearly doubling the ten billion dollars Congress had anticipated would be raised. In comparison, the 2006 Advanced Wireless Service (AWS-1) Auction sold approximately 50 percent more spectrum, yet generated one-third less revenue.

Even with the open platform requirement and aggressive build-out obligations, each of these blocks sold for more than AWS-1 blocks with comparable bandwidth and license areas.

As this slide shows (*Exhibit 1*), all other 68 auctions conducted by the FCC in the past 15 years collectively produced a total of only \$19.1 billion in actual receipts, roughly equivalent to the money raised in the 700 MHz auction alone.

While clearly a success in terms of dollars, this auction also attained significant public interest objectives that benefit the consumer.

With open platform requirements on one-third of the spectrum, consumers will be able to use the wireless device of their choice and download whatever legal software or applications they choose.

A network that is more open to devices and applications will help foster innovation on the edge of the network, and give consumers greater freedom to use the wireless devices and applications of their choice.

Ensuring that rural and underserved areas of the country benefit from the new services that this spectrum offers, the Commission adopted the most aggressive build-out requirements ever applied to wireless spectrum.

As a result, the spectrum will quickly be put to use by all auction winners to deploy new technologies and offer new services in both urban and rural areas of the country.

Finally, as I will discuss below, we created what will be new wireless broadband providers to compete with the incumbent telephone and cable companies in nearly every home in the U.S.

Myth 2: Verizon and AT&T won everything

In fact, a total of 99 bidders other than Verizon and AT&T won 754 licenses – representing almost 70% of the licenses sold. And a bidder other than Verizon or AT&T won a license in every market.

Small businesses eligible for bidding credits were very successful in the auction. 56 (55%) of 101 total winning bidders claimed designated entity bidding credits as small businesses, almost all of whom are new entrants.

As you can see in the next slide (*Exhibit 2*), this is very similar to past auctions.

And in the next slide (*Exhibit 3*) we see that small businesses eligible for bidding credits won 379 (35%) of the licenses - which again is similar to past auctions.

And finally as this map illustrates (*Exhibit 4*), these licenses covered a large portion of the country primarily in rural areas.

In fact, much of the money spent by Verizon and AT&T (approximately 70%) was used to obtain spectrum in only the top 15 markets. The small and rural providers won 500 licenses covering almost 60% of MHz/pops available outside the top 15 markets in the A and B blocks.

Finally, most auction winners are new entrants. Of the 101 winning bidders, 72 are new entrants who won 675 licenses.

Myth 3: Small carriers were unable to win even in rural areas

Some have argued that small and rural providers were unable to win any spectrum, particularly in smaller communities. This is simply not true.

In fact, new entrants, small and rural providers did especially well in rural areas. As you can see in this slide (*Exhibit 5*), in the A and B blocks alone, small and rural providers won spectrum that covered almost the entire country.

Where they were unsuccessful was not in rural America or even in medium size markets, but in twenty large metropolitan areas, such as New York, Los Angeles, Dallas, Chicago and Atlanta.

And, despite what some have argued, the percentage of spectrum available in smaller geographic areas was in fact comparable to what we did in AWS-1.

As you can see in this slide (*Exhibit 6*), the percentage of spectrum available in licenses that cover the smallest areas (CMAs) was higher in the 700 MHz auction.

In the largest cities, it did not matter whether the license was a smaller CMA, a medium size EA or a regional REAG, the large carriers won. Unless the Commission had banned the nationwide incumbents – an idea few advocated – smaller and rural providers would likely not have succeeded in the largest markets.

Myth 4: There will be no Third Pipe – the license were all won by the incumbent telephone or cable company

In much of the country, consumers have a choice of only two broadband services: cable or DSL.

Although the auction did not result in a single, nationwide new entrant, in every market a third provider will be able to use a wireless broadband platform to compete against the incumbent telephone and cable companies.

For example in Chicago, Verizon is not the incumbent DSL or cable provider, but won licenses in that area.

The same can be said of Metro PCS winning licenses in Boston and AT&T winning licenses in New York City. In those areas, these companies will provide a wireless broadband service that competes with the incumbent telephone and cable companies' wireline offerings.

In fact, as this next slide shows (*Exhibit 7*), a bidder other than the incumbent DSL or cable provider won in nearly every area in the country.

Myth 5: Everyone knows Verizon was going open anyway

The auction had an impact on innovation in the wireless industry even before the bidding began. In less than a year, many wireless providers evolved from vocal opponents to vocal proponents, embracing the open platform concept. Verizon Wireless has now committed to open its *entire* network to devices and applications for consumers.

But when the open access issue was proposed, Verizon was adamantly opposed.

For example, Verizon said to Congress in June that “what most concerns us is that the open access regulation ... threatens to disrupt the positive consumer experience.” And that “An open access regime would threaten to shift the business of wireless network operators to primarily offering subscribers airtime.”

In an *ex parte* filed in July of 07, Verizon argued that the “limits that Verizon Wireless places on devices and applications ... are critical to maintaining the quality of its network and serving its customers.”

Just the next day, Verizon argued, “Imposing any such requirements. . . [would] limit the introduction of new and innovative wireless services.”

Finally, Verizon took the Commission to court over the open access provision, going so far as to seek a stay of our auction.

If Verizon was planning to open its network regardless, why would it pay for the lawyers fees for the court case alone?

Myth 6: We could have achieved a Public Safety network another way

During a crisis public safety has to be able to communicate, regardless of where they are from or the uniform they wear.

Some critics seem to suggest that if we had just auctioned the D block without conditions, a public safety network would have materialized on its own. Or that we should have ignored public safety’s conditions requiring a more robust network.

But six years after September 11, there is still no nationwide public safety network in place.

The simple reality is that public safety does not have the funds to build a network.

It would have been better to take the auction proceeds and provide the public safety community with the resources needed to build their own interoperable network. But we do not have the authority to directly fund such a network. As a result, the Public/Private Partnership was the only means available to us to address this crucial issue.

My colleagues *both* Republican and Democratic agreed. The Commission unanimously adopted the Public Safety/Private Partnership approach for the D Block as an innovative means to address the critical need for nationwide public safety interoperability.

The Commission will however, also need to take into account why the D block did not attract a successful bidder. The Commission needs to consider whether the demands that were placed on the prospective D block winner, such as network expectations and build-out requirements, were too great.

Absent funding legislation, I believe that a Public/Private Partnership remains the only tool at the Commission's disposal to solve the public safety interoperability challenge. However, we will look at all options and I look forward to hearing your views.

Conclusion

This auction stands as the most successful FCC auction ever conducted, but there is still more to be done.

I look forward to working with this Committee and my colleagues on these challenging issues in the months to come.