FCC Announces the Results of the $19.8 Billion Broadcast Incentive Auction

April 14, 2017

On Thursday, April 13, 2017, the Federal Communications Commission ("FCC" or the "Commission") announced the results of its broadcast incentive auction. The FCC raised approximately $19.8 billion through the auction. While the gross revenues were considerably less than the nearly $45 billion the Commission raised in 2015 from the Advanced Wireless Services 3 ("AWS-3") auction, the spectrum incentive auction still had one of the highest grossing auction results in agency history.

The 50 winning bidders won a combined total of 70 MHz of licensed spectrum nationwide in the 600 MHz range. The largest spenders were T-Mobile at $8 billion, Dish at $6.2 billion, and Comcast at $1.7 billion. Notably, AT&T spent less than $1 billion, and Verizon did not bid at all.

Over the course of the next 39 months, participating broadcast stations will transition to new channel assignments.

Background

In 2012, as part of the Middle Class Tax Relief and Job Creation Act, in response to scarcity concerns and a "spectrum crunch" facing Internet service providers ("ISPs"), Congress authorized the auction to incentivize broadcast stations to relinquish spectrum so it could be repurposed for mobile broadband and other licensed and unlicensed uses.

The auction commenced on March 29, 2016, and consisted of two phases – a reverse auction, which set the price for broadcasters selling spectrum, and a forward auction, which set the price for wireless providers purchasing spectrum.

According to the FCC, more than $10 billion in auction revenues will go to the 175 stations which sold their licenses. Of those winners, 30 stations agreed to operate on a lower channel, and 133 others will surrender their licenses but will stay on air via channel sharing agreements with other stations.

Impact on the Wireless Market

The newly auctioned 600 MHz spectrum has highly valuable characteristics. This low frequency spectrum can travel long distances and permeate buildings, unlike higher frequency spectrum. As a result, this spectrum is ideal for supporting wireless networks. However, don't expect your cellphone signal to improve overnight—the present generation of mobile handsets is not yet designed to operate in the 600 MHz range, and the auction winners will not actually get to make use of the spectrum until at least 2020.

While FCC rules limit the ability of the winning carriers to discuss their plans for their new licenses, the auction results portend near-term trends in the wireless market.

- T-Mobile likely purchased spectrum in the hopes of improving its network performance vis-a-vis Verizon and AT&T, who have long possessed similar spectrum in the 700 MHz range.
- Dish's intentions are somewhat unclear. As was the case in the AWS-3 auction, the company served as a dark horse and purchased more spectrum than analysts were expecting. While the company recently announced that it was building a network specifically for the Internet of Things ("IoT"), it is unclear whether the 600 MHz band will be part of that plan.
- Comcast's investments could be either a way of bolstering the performance of their recently announced Mobile Virtual Network Operator ("MVNO") service, Xfinity Mobile, or could be early asset purchases made in anticipation of eventual plans to acquire a facilities-based wireless carrier such as Sprint or T-Mobile.

The role of 600 MHz spectrum in the evolving wireless market remains to be seen. Even if T-Mobile improves network performance relative to the big two carriers, the true test will come in 2019 and beyond, as the mobile industry shifts to next-generation 5G systems. While 5G is expected to rely on a combination of low, medium, and high frequency spectrum, many expect high frequency millimeter wave ("mmW") spectrum and investment in small cell infrastructure to be the keys to 5G optimization. This may be part of the reason that the auction revenues, though significant, were less than many industry observers had initially expected.

Nonetheless, conventional wisdom about the value of various frequency bands changes over time. Two decades ago, mmW bands were considered practically useless. Thus, while we now know the bidding results of the incentive auction, it may be years before we fully grasp its ramifications.