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Phoenix Center: D Block auction more expensive than projected

By Sara Jerome - 03/01/11 07:59 AM ET

A study released Monday argues that giving away away the valuable D Block of airwaves for free is cheaper for the federal government than auctioning it off for money.

The study comes as House Energy and Commerce Republicans continue to mull the best way to build a public safety communications network, placing strong consideration on cost.

The free-market think tank the Phoenix Center argues in a new paper that giving away the valuable D Block of spectrum for free by reallocating it to public safety agencies is the most economically viable way forward.

The Obama administration and key members of Congress have embraced this plan, but detractors would prefer to auction the spectrum to commercial providers, funding a communications network with the returns.

Auction proponents want public safety agencies to share the disputed airwaves with commercial providers, and they say their plan—proposed by the FCC last year—is easier on the federal purse strings.

Quite the opposite, says the Phoenix Center. Giving the spectrum away for free is actually cheaper than auctioning it off, for a number of reasons.

In this economy, the paper says, spectrum auctions generally may not bring in as much cash as they have in the past.

"The economic health of the country has deteriorated since the bidding in [previous auctions]. Thus, the D Block auction should not be expected to produce as much revenue as the earlier auctions. Coleman Bazelon [an analyst] estimates that the economic crisis will reduce the expected value of spectrum by approximately 20 percent," the paper says.

The paper says projections have overestimated what a D Block auction would bring in.

"At best, the D Block spectrum will generate auction revenues in the $1 to $3 billion range. In reality, much less," the study says, projecting revenue at below $1 billion.

The study also says the government will forego key "social opportunities" if the D Block is not reallocated.

"This unique opportunity is worth $2 to $6 billion, which is forgone now and in the future (as auction revenues) if the D Block is assigned to commercial use," the study says.

Revenue would also be lower than projected because of auction winners would have commercial obligations to share the airwaves with public safety agencies and because the FCC would potentially exclude certain bidders from participating.

"It is...not unreasonable to assume that the commission may exclude some bidders from the auction. A reduction in the number of bidders, particularly if these potential bidders are large firms, is likely to reduce the expected auction revenue," the paper says.

Fiscally conservative Republicans who support the the auction, including Energy and Commerce member Rep. Marsha Blackburn (Tenn.), are advocating against bidder exclusion. When the Federal Communications Commission (FCC) etched an auction plan, it did not propose to exclude bidders.

The Phoenix Center study concludes that the auction "adds, rather than relieves, stress to the public budget."

"The loss of auction revenues today is more than offset by higher public network deployment costs necessary to accommodate non-contiguous spectrum tomorrow," it says.

The Phoenix Center is a free-market think tank that has sometimes been **on the outs with** the FCC. It generally has aligned with the views of the nation's largest wireless companies, who support reallocation.

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