

GENERAL UPDATE

The Incentives Subcommittee has met four times to date: March 31, April 26, May 12 and May 17. The discussion to date has focused on defining the scope of our inquiry (see Outline below), the policy purposes of incentives (consensus noted below), the issue of spectrum user fees, and the effectiveness of OMB Circular A-11, which requires agencies to take the valuation of spectrum into account in procuring radio systems.. Concerning fees, William Webb, head of policy and research at UK's Ofcom, briefed the Subcommittee on the UK's experience with Administrative Incentive Pricing (AIP) since it began to phase in slowly in 1998. A request to meet with OMB is pending.

The Subcommittee has not yet reached a consensus on the issue of spectrum fees (see below) or on putting 'teeth' into the Circular A-11 process. We will then move onto a set of potentially more positive incentives, including mechanisms such as expanding on the Spectrum Relocation Fund, incentive auctions and the generation of revenue from opening access to currently underutilized spectrum.

OUTLINE & SCOPE OF INQUIRY

I. Purpose of Incentives

- A. Consensus: Outcomes and behaviors we want to change or foster with incentives
- To promote more efficient use of spectrum in general and relative to the mission or use of the spectrum
 - To expand access to existing spectrum capacity, whether for meeting existing users own increased mission/use demands, for reallocation, or for shared use
 - To ensure that spectrum-based solutions are required and cannot be met with alternative systems/services
 - To ensure the protection of systems serving important public needs, including military, public safety and other uses.

II. Mechanisms Based on Internalizing Opportunity Costs (still under discussion)

A. Internalizing Opportunity Costs: Spectrum Fees

1. Economic Framework

- Economic inefficiencies are minimized where users face the full opportunity costs
- Opportunity costs have not been defined nor agreed in context of federal use of spectrum.

- The effectiveness of spectrum use fees to internalize opportunity costs depends as well on whether users have flexible transfer and usage rights
- It is important to treat all spectrum holders as equally as possible with respect to internalizing opportunity cost, even if phase-in period needed.
- Spectrum fees are only one mechanism to incent more efficient spectrum usage, and should be evaluated

2. What users/incumbents should be assessed fees?

Issues:

- Federal (all?)
- Public Safety?
- Non-Gov (all non-auctioned?)
- Unlicensed?

3. Fed Gov: Feasible Means to Internalize Market Valuation

Issues:

- Administrative Pricing model, informed by market (such as UK/Ofcom?)
- ‘Negative’ fees (cost is budgeted, but agency retains if spectrum returned)
- Imputed prices (market prices not actually charged against budget, but transparent and factored more explicitly into OMB A-11 process)
- Phase-in

4. Valuation: Prices/fees based on what? (full market? exceptions?)

- Fed Gov
- Non-Fed

B. Modify or Strengthen OMB Circular A-11 To Promote Spectrum Stewardship

1. OMB A-11 requires agencies to

- (a) include value of spectrum in economic analysis of alternative systems
- (b) obtain a certification from NTIA that spectrum/frequencies are available

Issues:

- Should the Circular be revised to focus on analysis of alternatives and cost differences of those alternatives relative to spectrum stewardship improvements?
- Should any certification process be stiffened to include sign-off and/or spectrum cost-benefit analysis from an expert group? (NTIA?)
- Alternative: Self-certification via a checklist requiring certain analysis to be submitted to OMB and/or NTIA (as part of spectrum certification)?.

C. Incorporation of Spectrum Stewardship in Federal Agencies Acquisition Processes

a. At what procurement stage?

III. Mechanisms Based on Reimbursements, Revenue, Subsidies for Efficiency **(no discussion yet)**

A. Positive Incentives for Spectrum Relocation

1. Federal Bands: CSEA/Spectrum Relocation Fund improvements
 - Broadband Plan (\$ for commercial or non-spectrum substitute)
 - Streamline CSEA process
 - Advance funds for planning and research
 - Other
2. Non-Gov Bands:
 - FCC authority for 'incentive' auctions (what kind?)
 - Alternatives

B. Positive Incentives for Spectrum Sharing (no discussion yet)

1. Expand CSEA eligibility (a revolving Spectrum Efficiency Fund?)
 - Agency resources to upgrade systems to promote efficiency/sharing
 - Options to replenish fund (e.g., spectrum access and/or device fees)
2. Secondary Market transactions
 - Clarifying Fed Gov assignee rights to spectrum
 - Leasing authority
 - by individual agencies to private parties? Other Gov entities?
 - Real-time auctions
 - NTIA role: coordination, brokering?
3. Incentives for sharing bands among agencies
 - sharing systems/common standards
 - sharing bands (e.g., geographically)
 - overcoming the cultural obstacles/silos
 - NTIA: coordination/brokering role?
4. Enforcement and interference issues
5. Temporary access to bands for experimental use