

PREPARED REMARKS OF FCC CHAIRMAN TOM WHEELER

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Thank you, Gordon, for that introduction, and thank you all for welcoming me.

It's been a year since I was last with you. Since then, many notable things have happened. Forty-one billion notable things in particular come to mind. The recently concluded AWS-3 spectrum auction has some relevance for your industry, and I want to talk more about that in detail in a moment. But first, I hope we can put the incentive auction in perspective with the greater FCC agenda.

Now, I've heard and read how some believe the FCC has been ignoring broadcasting in favor of shiny new baubles such as the Internet. I guess my first reaction is that I can refer you to some folks who, no doubt, wish the FCC would ignore them! More seriously, however, what we have been doing in other areas is, I hope, understood as actions that expand the opportunities of those seeking to provide content and services to American consumers.

I know broadcasters have always been concerned about gatekeepers. The must carry rules are a manifestation of that concern. It was that kind of sensitivity that has led us to focus on maintaining an open Internet. And now that we have produced an Open Internet Order, I hope that you will see in it something important to maintaining your service to the American public, as well as your ability to expand that capability in a continually evolving network environment.

The Open Internet order safeguards an increasingly important distribution channel for your most important product – local news and information. It assures that your use of the Internet will be free from the risk of discrimination or hold up by a gatekeeper. Again, I liken this to the concept behind must carry – updated for the 21st century.

I hope this means that you as individual broadcasters, as well as through NAB, can support what we have done and help explain its importance to the principles upon which broadcasting has always been based. Your goals as an important and innovative public service provider and our Open Internet goals are the same: when you want to offer something over the Internet, no one should stand in your way. Least of all, no one should stand between you and the consumers who will benefit from your service. I believe, by the way, this is equally applicable for both radio and television.

There can be no question; the public interest is served by a healthy broadcasting industry with robust reach. Broadcasting is an important part of our future just as it has been an indispensable part of our past.

From a historical perspective, over-the-air broadcasting has contributed immeasurably to providing our uniquely diverse society with a sense of community, with a sense of shared experience. Watching TV is our true national pastime – a source of entertainment and social cohesion. Broadcast TV delivers our most highly watched programming, and events like the

Oscars and Super Bowl still draw huge audiences – providing the moments we come together to discuss at the water cooler and, now, on Twitter. And similarly with events that have much larger civic consequences, the kind of event of which it accurately is said, “everyone remembers where he or she was when they learned of it.”

Local TV and radio broadcasters are still the most important source of breaking news in our cities and neighborhoods. Broadcasters are the first place we turn in times of emergency. Those of you who live in the Northeast know that we had a “weather event” seemingly every week this winter. I use the Weather Channel app on my phone regularly, but when it really mattered, I know I was tuning into my local broadcaster to get the real skinny. In your role as first informers, you often put yourselves in harm’s way; providing this information lifeline is an invaluable public service.

Broadcasters also play a critical role in local economies, connecting people to businesses and commerce like few other mediums can. Recently, I’ve seen reports questioning whether the up-front market remains relevant in a time of increasing use of online commerce and real time bidding. You know the answer to that, I don’t, but I do know that as our economy increasingly goes online, broadcast content and broadcasters should not be kept off.

The fact that the NAB Show includes an Online Video Conference on issues that subscription-based content providers face when monetizing video across a variety of platforms is illustrative of the online future which must be free of gatekeepers.

I saw that Harvard Business School Professor Clayton Christensen spoke at the NAB Futures conference last fall. As many of you know, Professor Christensen is renowned for his research on disruptive technologies and how they require market-leading companies to change established practices or risk being passed by new competitors, what he termed “The Innovator’s Dilemma”. The key lesson: The best way to leapfrog the competition is to leapfrog yourself.

The expansion of over-the-top programming and broadcasting’s place in this new world is a matter of mutual interest – yours for obvious commercial reasons and ours because of the competitive implications.

Just a few days ago, the Commission issued its 16th Annual Video Competition report. Probably the most notable finding was that, for the first time since we began issuing this report, we saw a full-year decline in the number of pay TV subscribers, and almost all of the losses came from cable subscribers.

Why is this happening? Basically, broadband Internet is bringing consumers new over-the-top options like Hulu and Amazon Prime, and with the high-price of cable bundles – around \$125 a month – consumers are pursuing alternatives.

One alternative they are pursuing is broadcast TV. The number of households relying exclusively on over-the-air broadcast service was up last year. We also see a growing number

of people cutting the cable cord and pairing an over-the-air antenna with some OTT services. I expect that we also will see more broadcast channels incorporated into OTT service offerings.

As we're thinking about how the new environment necessitates a new look at doing business, let me switch topics to consider a management challenge we at the FCC face, and about which I know you have raised questions. That is the allocation of our resources, especially with regard to FCC field offices.

I recognize your concern that we may somehow be signaling a decrease in our interference protection, pirate radio enforcement, or other activities important to broadcasters. Let me assure you that is not the case and we want to work with you to make sure that broadcasters are fully protected.

This is a simple situation of new realities demanding a reassessment of how we do business. It is the same situation you as business people face continually. We are trying to bring simple business management concepts to the FCC.

It has been 20 years since the FCC assessed its field operations. If you had a manager that only reviewed operations every 20 years, he or she would be a former employee. Things have changed in those 20 years. Twenty years ago FCC field staff was knocking on your door to inspect your files; today that information is electronic. Twenty years ago the FCC operated on the assumption that you would fail to keep your towers painted and lit; today we operate with an affirmative assumption and technology has changed the nature of tower inspection.

We have too many people – good people mind you – whose role in the field has been changed by time. Maintaining the business-as-usual activity, however, costs us (meaning you) almost \$10 million a year. Keeping a person in so many field offices costs 2-4 times as much as if we had centralized field offices out of which agents worked.

Put your business hats on for a second. Every office requires reception space, a kitchen, a conference room, storage, etc. Allocating that fixed cost across a 2 or 4 person office means unrealistically high overhead costs. And we don't want those people staying in the office anyway. The agents from 24 offices go to where the problem is – just as the agents from eight offices will do.

I am used to people complaining about government inefficiencies. It is a new experience, however, to hear complaints to maintain the inefficiencies.

Finally, I want to emphasize that this is not a diminution of our pirate radio efforts. In fact, with more agents in Miami and New York City, as this plan provides, there will be more boots on the ground in the areas of greatest challenge. When concerns arise elsewhere, flying teams will descend on that market. And, by the way, under the new plan all FCC field staff will have electrical engineering backgrounds.

While we are on the topic of challenges and opportunities, I should mention an initiative that my friend Commissioner O'Rielly and I are exploring. Last month Commissioner O'Rielly published a blog indicating that we should set "rules and policies that affirmatively permit

foreign ownership (of broadcast properties) above the 25 percent cap once and for all.” I agree that it is a goal worth pursuing for the reasons that Commissioner O’Rielly noted: benefits including additional inbound investment possibilities and potential reciprocal treatment in our foreign trade and investment activities. There are important details that will need to be considered, including how to make appropriate allowance for any national security issues that might arise. But, overall, I am optimistic that this is an opportunity that we will grasp successfully.

Another bipartisan initiative is AM radio. Commissioner Pai has been a champion of a proposal put forth during Commissioner Clyburn’s chairmanship to help AM radio licensees. I intend to shortly schedule a vote on the solutions proposed to ameliorate the practical problems and interference-related issues that AM licensees have been seeking. I also intend to address how FM translators can be used to benefit not just some licensees, but all licensees, including new licensees, and how that fits with our statutory mandate to localism and diversity of voices.

And now, as promised, allow me to turn to the Incentive Auction. After five years of speculating about the Incentive Auction, it’s about to get real. I couldn’t be more pleased that the broadcasting industry is engaged in a productive dialogue with the FCC about the auction. We are making every effort to provide information about how it will work, including estimates of the potential financial benefits of participating. Last year, I described the auction as “a once-in-a-lifetime, virtually risk-free opportunity to expand your business model on somebody else’s dime.” I don’t see any reason to amend that conclusion.

But a lot has happened in the last year. Let’s reflect on the specifics.

In May 2014, a month after we last met, the Commission adopted a Report & Order establishing the basic policies and rules for the auction and service rules for the flexible use of the spectrum that will be repurposed in the auction.

Since then, the Commission has moved forward with orders and proposals to address a wide range of auction implementation issues, including rules for preventing interference between broadcasters and wireless providers, and among repacked broadcasters.

In December, the Commission adopted the “Comment Public Notice,” seeking public comment on detailed proposals relating to the conduct of the auction, establishing reverse auction prices, and finalizing the rules for repacking broadcasters that remain on the air, among other issues. Based on the public input in response to the Public Notice, the Commission will, in the next few months, consider a “Procedures Public Notice” adopting final rules and auction procedures. Let me give you a hint where we are heading: we want to make broadcaster participation more accommodating.

Having taken these steps, we are on track to hold the auction in early 2016. That means we will begin accepting applications in the fall of this year.

Of all the things that have happened over the past year, perhaps the biggest game changer for the Incentive Auction was the historic AWS-3 auction. By generating a record-shattering \$41

billion in net bids, the auction confirmed the strong market demand for more spectrum for wireless broadband.

At the recent Mobile World Congress in Barcelona, Gordon Smith was asked about the AWS-3 auction and what it means for the incentive auction. He replied, "If you own a television studio and it's worth \$5 million and someone offers you \$50, you'd become interested ... [M]y members who are public companies, they have earnings calls to make, boards to report to, return on investment to investors, so they have to look at this now." Obviously, I agree.

There were some suggestions that the bidding in the AWS-3 auction may have strained the financial capacity of bidders, but those suggestions belie the facts. After the auction closed, AT&T reiterated its commitment to bid \$9 billion in the incentive auction. T-Mobile and DISH have also said publicly that they will participate. And I doubt the only bidders will be the traditional bidders.

Last year, I said that we were developing an outreach plan that would include the provision of detailed auction information to help you make your assessments of the incentive auction opportunities. We're following through on that commitment. We've already met with hundreds of interested broadcasters in over 20 markets, and the Commission has hosted dozens of meetings and well-attended webinars. There are still 20 more markets to visit. We've published estimated high-end compensation numbers as well as proposed opening bid prices for every market in the country and made individual numbers available to every station that's asked for them.

Not surprisingly, broadcaster interest has gathered significant momentum. In addition to the hundreds of broadcasters of all sizes that have privately expressed interest in the auction, Fox, ION, Tribune, and Univision have publicly expressed their interest in participating. I am pleased that, as part of our outreach, we've already talked with broadcasters representing nearly half of the stations eligible for the auction.

Last year I mentioned that channel sharing will be a flexible, ground-breaking opportunity for broadcasters that want to reap the rewards of the auction while staying on the air. And it will be. To provide even more channel sharing flexibility, I just circulated a new set of rules that will allow full power and Class A stations to select channel sharing partners both before and after the conclusion of the auction. Parties would also be able to enter into channel sharing agreements for fixed terms. We like channel sharing so much, in fact, that we're proposing to allow channel sharing between stations regardless of whether they participate in the auction next year or not—although those that decide to channel share outside of the auction context will not be able to collect auction proceeds.

A possible bump in the road is a certain lawsuit challenging our rules. But we are hopeful that the court will dispose of that suit in a way that will allow both of us to move forward. Since this is my last NAB Show before the auction, let me make our pitch to this audience one more time.

Truly, the Incentive Auction is a "once-in-a-lifetime" opportunity. Congress has authorized the FCC to repurpose broadcast spectrum for wireless use and repack the 600 MHz band on a

nationwide basis. Our ability to repack the band enhances the value of the spectrum that broadcasters voluntarily relinquish far beyond what would be possible in one-off deals. And this is it. The FCC has no other Incentive Auctions planned, or expected. And the special provisions for this broadcast spectrum auction are usable only once.

This opportunity is also “risk free.” You decide whether to participate after seeing the opening bid price being offered and you have the flexibility to drop out in any subsequent round.

All information identifying broadcasters who participate and drop out or are not chosen is kept confidential for two years.

Also, participating and dropping out doesn’t disadvantage a station in repacking or relocation reimbursement. Stations that participate and drop out or are not selected will be treated *as if they had not participated*. I emphasize that.

Finally, participation in the auction is completely voluntary.

You can sell and relinquish your spectrum usage rights based on final bids.

Or, if you want to stay on the air and also reap auction proceeds, you can channel share or move to VHF.

Or, finally, you can choose not to participate and retain your spectrum usage rights subject to repacking. We have proposed procedures to make the most effective and efficient use of the \$1.75 billion that Congress authorized to reimburse stations for the costs of moving to their new channels.

The auction will be successful only if you are informed and have confidence in the rules and the process. That’s why we’re on the road meeting face-to-face with broadcasters and why we will continue to be available for your questions. We welcome your input and your involvement in the process of crafting the rules and policies. We want an auction that is good for consumers and competition – and that ensures a strong and vibrant broadcast industry.

Disruptive technologies demand that broadcasters and the FCC re-imagine many policies and practices. If each of us successfully addresses the opportunities inherent in the open Internet and the incentive auction, the end result will be a vibrant over-the-air broadcasting industry well able to fulfill its historic localism mission and a more competitive multichannel programming marketplace working for the benefit of American consumers.