



Reverse Auctions: A Bad Deal for Rural America

Some policy-makers have recommended implementing “reverse auctions” to drive downward the amount of federal universal service support needed for broadband deployment in rural America. Unlike a traditional auction—where the high bidder wins—participants in a reverse auction bid for the least amount of support they believe they need to serve an area, with the lowest bid winning the auction.

Reverse auctions remain *only a theory* for debate to date. There has not been a single example of a reverse auction successfully implemented anywhere in the United States for the purpose that is contemplated by these policy-makers. Internationally, reverse auctions have a spotty record, at best, with documented examples of reverse auctions failing to attract bidders and/or winning bidders defaulting on their obligations.

Reverse auctions undermine the goals of universal service to ensure access by all Americans to affordable, quality, advanced services. Instead, reverse auctions threaten to create:

- **A race to the bottom.** A bidder who offers to provide broadband service at the lowest cost will be tempted to cut costs to the bare minimum by, among other things, skimping on investment and limiting service quality. Such a “race to the bottom” encourages sub-standard service and may not keep consumers’ best interests foremost in the business plan.
- **Stranded consumers.** If or when the winning bidder is unable or unwilling to live up to obligations to deploy and maintain a network throughout a service area, consumers will be left unserved. Bidders in reverse auctions may not appreciate or anticipate the unique challenges of providing ubiquitous service throughout an area – particularly regions that are as sparsely populated and geographically large as many rural serving areas – and may not take the cost of serving the highest-cost customers into consideration when forming their bids. Worse still, if providers are free to define their own areas (as they could under the broadband stimulus funding programs), creative bidders may seek to partition serving areas to serve only lower-cost customers, leaving higher-cost customers effectively stranded.
- **Stranded investment.** Existing community-based providers have invested millions of dollars in their networks, based on reasonable expectations of being able to earn a return on that investment over a number of years. These investments have been placed in areas where a business case might be made to serve, at best, only a small portion of the total geographic service area. A reverse auction could result in a new provider displacing existing network infrastructure, thereby abandoning existing network investment, jobs and tax revenues.
- **Threat to investment and modernization.** The threat of a low-cost provider displacing existing networks will chill, if not freeze further investment in existing networks. Providers will be unable to maintain existing investment; lenders will not provide financing for future investment where the viability of their clients is unknown.
- **Betting on the unknown.** Reverse auctions threaten to replace existing broadband networks with low-cost providers, leaving rural consumers dependent on whether the lowest bidder’s business case turns out sound enough to sustain, expand, and upgrade its operations. It is also unclear to what degree a “patchwork” of technologies and providers-of-last-resort within communities (based upon self-defined serving areas that have been won in auctions) might lead to consumer confusion and/or technical concerns with broadband Internet access.

Reverse auctions could perhaps play a limited role in mobility funding where there is no pre-existing infrastructure. But as a mechanism for parsing out universal service funds in areas with pre-existing infrastructure, reverse auctions are, quite simply, not the answer.

The Rural Associations therefore urge policy-makers to reject reverse auctions as a means of determining the distribution of universal service funding for rural providers-of-last-resort in favor of other, proven methods.