

# Senate Spectrum Hearing – What To Watch For

October 16, 2019 by Vivek Stalam

Tomorrow, the Senate will hold a sub-committee hearing to conduct oversight of the FCC Spectrum Auctions Program. The hearing will be presided over by Sen. John Kennedy (R-LA), who has been in opposition to any C-Band re-allocation process that would see the C-Band Alliance capture significant proceeds. FCC Chairman Ajit Pai will be a witness, and this may well be the first time we get more insight into his thinking on the C-Band re-allocation process (the two other witnesses are from deficit hawk lobbying groups). In this brief note, we lay out what we would read as positive and negative signs for the CBA and Intelsat (see our recent bullish initiation [HERE](#)).

## ***The backdrop***

Chairman Pai has provided very few details on his view of the re-allocation process, only noting that action would be taken in the fall (i.e. at the November or December meeting). Other Republicans on the Commission, most notably Commissioner O’Rielly, have been far more explicit in their support of the CBA’s proposal for a private auction ([LINK](#)). We suspect that Pai is supportive of the CBA’s proposal, given the record (see slide 75 of our initiation [HERE](#)) and support from other Republicans.

Senator Kennedy has been an outspoken advocate against the CBA’s plan to auction the spectrum (with the vast majority of the proceeds going to its members). Recently, he included language in an appropriations bill that “encouraged” the FCC to conduct a public auction, as opposed to the CBA’s proposed private auction; such language has no actual legal impact on the FCC, as we note [HERE](#). Thus far, Senator Kennedy has been unable to convince other Republican senators to join his cause (other Senate Republicans [were reportedly upset with his bill language](#)), though there is a risk that this will change as the debate plays out.

## ***Key issue #1: Government cut of proceeds***

The first key issue to watch for is how Chairman Pai (and the other witnesses) address the question of the government cut of proceeds. If Pai pushes for a relatively small percentage of proceeds going to Treasury, that would be a positive for the CBA; it would be even more positive if the other witnesses and Senator Kennedy agreed. It would be negative for the CBA if Pai pushed for a larger share of proceeds to go to the Treasury. Our base case for the government cut is 20%, but we think Intelsat stock could still double even if the government cut was 40% (see slide 6 [HERE](#)), as long as the auction generates our base case proceeds of \$50BN.

## ***Key issue #2: Auction rules***

The second key issue to watch for is for any indication on Pai's thinking on auction rules, specifically those rules that could hinder auction proceeds (like bidding caps). This likely won't be a key focus of the hearing, but it is an important driver of proceeds. We have seen no indication from Pai that bidding caps would be enacted, but a more explicit statement would be positive for the CBA. Alternatively, if he suggests that bidding caps are on the table and under serious consideration, it would be negative for the CBA.

***Key issue #3: Kennedy's crusade***

The final thing to watch for is any color from Senator Kennedy, and other Republican Senators, on future actions regarding the C-Band. Thus far, Senator Kennedy's actions have brought little in the way of actual impact and have had little support from fellow Republicans. If he showed signs that this hearing would be the final step in his involvement, that would be positive for the C-Band. On the other hand, if it's clear that other Republican members of the sub-committee are looking to place a restrictive cap on proceeds to the CBA, it would be a negative.