



A Professional Limited Liability Company

1333 New Hampshire Ave., NW, Fl 2
Washington, DC 20036
Telephone: (202) 872-6811
Facsimile: (202) 683-6791

Chicago Office
307 North Michigan Ave., Suite 1020
Chicago, Illinois 60601
Telephone: (312) 372-3930
Facsimile: (312) 372-3939

Barbara S. Esbin
Admitted in the District of Columbia

November 5, 2010

Via ECFS

Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Room TW-A325
Washington, DC 20554

Re: American Cable Association (“ACA”) Notice of Ex Parte Presentation; *In the Matter of Applications of Comcast Corporation, General Electric Company and NBC Universal, Inc. for Consent to Assign Licenses or Transfer Control of Licenses; MB Docket No. 10-56.*

Dear Ms. Dortch:

On November 4, 2010, Matt Polka and Ross Lieberman, American Cable Association; Professor William P. Rogerson, Northwestern University; Tom Cohen, Kelley Drye & Warren LLP; and the undersigned, met with Jonathan Baker, FCC Chief Economist, Daniel Shiman, Paul LaFontaine, Joel Rabinovitz, Jim Bird and Chuck Needy. In the meeting, participants again discussed the horizontal and vertical harms of the proposed Comcast-NBCU transaction and the safeguards ACA has proposed to protect consumers and competition described in ACA’s Comments filed June 21, 2010, Response to Comments filed July 21, 2010, and Reply filed August 19, 2010 in the above-referenced proceeding.¹

As ACA has demonstrated, the transaction will allow Comcast-NBCU to raise programming fees above levels they would be able to command without combining assets, and these fee increases will largely be passed through to subscribers in the form of higher subscription prices. This consumer harm will manifest itself in two ways: (1) vertical harm arising from the combination of NBCU key programming assets – NBCU national cable programming networks and NBC owned and operated (O&O) broadcast television stations² – with Comcast’s cable distribution assets permitting Comcast-

¹ *In the Matter of Applications of Comcast Corporation, General Electric Company, and NBC Universal, Inc., to Assign and Transfer Control of FCC Licenses*, MB Docket No. 10-56, Comments of the American Cable Association (filed June 21, 2010) (“ACA Comments”); Response to Comments of the American Cable Association (filed July 21, 2010); Reply of the American Cable Association (filed Aug. 19, 2010) (“ACA Reply”). In addition ACA’s concerns are documented in ex parte letters filed on August 27, 2010, September 21, 2010 (“ACA September 21st Ex Parte”), September 22, 2010, October 12, 2010, and October 29, 2010 (“ACA October 29th Ex Parte”).

² ACA Comments at 25-37; ACA Reply at 14-25; see also *In the Matter of General Motors Corporation and Hughes Electronics Corporation, Transferors, and The News Corporation Limited, Transferee*, MB Docket No. 03-124, Memorandum Opinion and Order, 19 FCC Rcd. 473, 572, ¶ 218 (2004).

NBCU to raise the fees it charges for NBCU programming to Comcast multichannel video programming distributor rivals (MVPDs); and (2) horizontal harm resulting from the increased market power derived from combining NBCU's key programming assets – the suite of highly rated NBCU national cable programming networks and NBC O&Os – with Comcast's key programming assets – its regional sports networks (RSNs) – that will allow Comcast-NBCU to raise the fees charged for this programming to additional MVPDs.³ In two supporting studies, Rogerson I and II, Professor Rogerson explained how to calculate the magnitude of the programming fee increases on a per subscriber basis that will result from each source of harm depending on the type of programming being purchased and the type of MVPD purchasing the program.⁴

During the meeting, Professor Rogerson presented the information on the slides attached hereto as Exhibit 1. This information is drawn from a third study that Professor Rogerson has performed with respect to the harms posed by the proposed combination of Comcast-NBCU programming and distribution assets. In particular, Professor Rogerson discussed his findings as to the magnitude of net consumer harms the proposed transaction poses for subscribers of MVPDs who purchase “must have” programming assets owned by the Applicants and for those MVPDs who both purchase Comcast-NBCU programming and compete in downstream distribution markets with Comcast.

Professor Rogerson also detailed his analysis of the quantifiable cost reductions Comcast could expect post-transaction, which shows that Comcast has vastly overestimated the savings that it will realize through joint ownership of NBCU programming assets. Even taking account of the factors Comcast's economic experts have identified, the savings, and consequently any potential consumer cost reductions, are swamped by the quantifiable vertical and horizontal consumer harms ACA has identified.

The significant results Professor Rogerson reported from his third study indicate that:

- the combination will result in \$2.4 billion in net consumer harms over a 9 year period;
- the quantifiable consumer harms of the transaction (\$2.57 billion) are more than 10 times greater than the quantifiable consumer benefits (\$204 million) claimed by the Applicants;
- the horizontal harm (\$1.14 billion) is nearly as great as the vertical harm (\$1.43 billion); failure to bring NBCU national cable programming networks within the scope of license transfer conditions would leave a sizeable portion of transaction-specific harms (\$1.56 billion) unremedied; and
- the quantifiable consumer harms of the transaction will be felt by consumers across the country, but especially so in Philadelphia, PA, Chicago, IL, San Francisco, CA, Washington, DC, and Hartford, CT, which are served by both an NBC O&O and Comcast RSN, and Comcast has a significant cable presence.

³ ACA Comments at 18-25; ACA Reply at 7-14.

⁴ These studies are attached as exhibits to ACA's June 21st Comments and August 19th Reply. See ACA Comments, Exhibit A, William P. Rogerson, “Economic Analysis of the Competitive Harms of the Proposed Comcast-NBCU Transaction” (Rogerson I); ACA Reply, Attachment A, William P. Rogerson, “A Further Economic Analysis of the Proposed Comcast-NBCU Transaction” (Rogerson II).

If you have any questions, or require further information, please do not hesitate to contact me directly. Pursuant to section 1.1206 of the Commission's rules, this letter is being filed electronically with the Commission.

Sincerely,



Barbara S. Esbin

Enclosure

cc (via email): Jonathan Baker
Daniel Shiman
Paul LaFontaine
Joel Rabinovitz
Jim Bird
Chuck Needy

EXHIBIT 1

**PRESENTATION TO THE FCC
ON THE PROPOSED COMCAST-NBCU TRANSACTION**

November 4, 2010

American Cable Association

OUTLINE

- I. **Calculation of the consumer harm that will result from the transaction**
- II. Israel-Katz Arguments on Reduced Double Marginalization
- III. Calculation of the consumer benefit that will result from the transaction
- IV. Calculation of the net consumer harm that will result from the transaction
- V. Data on the number of ACA members that purchase retransmission consent from NBC O&Os or carriage from Comcast RSNs

CALCULATING CONSUMER HARM

1. The Consumer Harm
 - transaction will allow Comcast-NBCU to raise programming fees and these fee increases will be largely passed through to subscribers in the form of higher subscription prices

2. Two Sources of Harm
 - Vertical Harm
 - due to combination of NBCU's programming assets with Comcast's cable assets
 - Comcast-NBCU will be able to raise fees it charges to Comcast rivals for NBCU programming

 - Horizontal Harm
 - due to combination of NBCU's programming assets with Comcast's programming assets
 - combination will increase Comcast-NBCU's market power over programming and allow it to raise fees it charges for programming to all MVPDs

3. Previously filed reports (Rogerson I and II) explained how to calculate the magnitude of the programming fee increases that will result from each source of harm depending on the type of programming being purchased and the type of MVPD purchasing the program.

CALCULATING CONSUMER HARM (Cont'd)

4. Rogerson III will calculate the total annual increase in programming costs that will result from the transaction:
 - for each programming/MVPD pair multiply the estimated fee increase by the number of affected subscribers to yield the cost increase for that programming/MVPD pair
 - sum across all programming/MVPD pairs.

5. We can interpret this as a measure of the consumer harm that will result from the transaction.
 - we are measuring “increases in programming fees”
 - consumer harm is actually measured by “increases in MVPD subscription prices”
 - two counteracting factors affect the relationship between these values
 - factor #1
 - not all of the fee increase will necessarily be passed through to subscribers in the form of higher subscription fees
 - factor #2
 - if the programming fees of one MVPD are increased this will cause it to raise subscription prices and create “headroom” for other MVPDs to raise subscription prices even if they did not experience the increase in programming fees.

**CONSUMER HARM CAUSED BY THE COMCAST-NBCU
TRANSACTION**
(millions of \$ per year)

	Vertical	Horizontal	Total
NBCU National Cable Networks			
Comcast RSNs			
NBC O&Os			
Total			

VERTICAL HARM

1. Two types of rival MVPDs
 - National MVPDs
 - DirecTV
 - DISH
 - Verizon
 - AT&T
 - Regional cable overbuilders
2. I will calculate total programming cost increase experienced by the four national MVPDs.
3. Where will the harm occur and what programming fees will be raised?
 - NBCU national cable programming networks
 - Comcast-NBCU will raise programming fees it charges to national MVPDs
 - the fact that Comcast cable systems only operate in part of the country will limit Comcast-NBCU's incentive to raise programming fees
 - however the fee increases will be national
 - NBC O&Os
 - Comcast-NBCU will raise retransmission consent fees
 - increases will be highest in DMAs where Comcast has the greatest cable presence

VERTICAL HARM (Cont'd)

3. Formula for fee increase

$$\Delta P = \alpha d \pi / 2$$

ΔP , monthly fee increase

π , monthly profit per Comcast subscriber

d , fraction of customers that will leave if programming is withdrawn

α , fraction of leaving customers that will switch to Comcast

4. Formula for α

$$\alpha = s_C / (1 - s_R)$$

s_C , market share of Comcast

s_R , market share of rival

5. Plausible Values for d and π

$$\pi = \$42.98$$

$$d = .05$$

6. Substitute formula for α and plausible values for d and π into formula for ΔP to yield

$$\Delta P = \$1.07 s_C / (1 - s_R)$$

VERTICAL HARM (Cont'd)

7. Total increase in programming cost given by

$$\Delta C = 12 \times \Delta P \times N$$

ΔC , total increase in programming cost

ΔP , increase in programming fee

N , number of subscribers

8. Will first calculate cost increase for NBC national cable networks, and then calculate increase for NBC O&Os.

TABLE 1
MVPD SUBSCRIBERSHIP IN DMAs SERVED BY NBC O&Os
(thousands of customers as of 1st quarter of 2010)

DMA	Comcast	Other Cable	Total Cable	DirecTV	DISH	Verizon	AT&T	Total
Philadelphia	1663.4	226.1	1889.5	291.3	154.7	309.4	0	2644.9
Chicago	1886.9	141.0	2027.9	557.4	365.1	0	155.5	3105.9
San Francisco	1242.3	87.9	1330.2	435.2	272.6	0	132.8	2170.8
Miami	653.9	48.6	702.5	352.5	111.4	0	71.5	1237.9
Washington, DC	948.6	275.5	1224.1	394.7	222.5	278.3	0	2119.6
Hartford-New Haven	312.3	239.3	551.6	117.1	51.1	0	83.9	803.7
New York	678.4	4495.9	5174.3	660.6	344.4	932.8	29.9	7142.0
Los Angeles	0	2420.0	2420.0	1189.0	627.2	321.6	174.6	4732.4
Dallas Fort Worth	0	1037.6	1037.6	508.1	445.2	151.5	224.0	2366.4
San Diego	0	699.3	699.3	117.3	81.1	3.6	64.0	965.3
Total U.S.	23477.0	37682.6	61159.6	18660.0	14337.0	3029.0	2295.0	99481

Source: Media Business Corp.

TABLE 2
MVPD SUBSCRIBERSHIP IN DMAs SERVED BY NBC O&Os
AS A PERCENTAGE OF TOTAL MVPD SUBSCRIBERS IN EACH DMA

DMA	Comcast	Other Cable	Total Cable	DirecTV	DISH	Verizon	AT&T	Total
Philadelphia	62.9	8.5	71.4	11.0	5.8	11.7	0	100
Chicago	60.8	4.5	65.3	17.9	11.8	0	5.0	100
San Francisco	57.2	4.0	61.3	20.0	12.6	0	6.1	100
Miami	52.8	3.9	56.7	28.5	9.0	0	5.8	100
Washington, DC	44.8	13.0	57.8	18.6	10.5	13.1	0	100
Hartford New Haven	38.9	29.8	68.6	14.6	6.4	0	10.4	100
New York	9.5	63.0	72.4	9.2	4.8	13.1	0.4	100
Los Angeles	0	51.1	51.1	25.1	13.3	6.8	3.7	100
Dallas Fort Worth	0	43.8	43.8	21.5	18.8	6.4	9.5	100
San Diego	0	72.4	72.4	12.2	8.4	.4	6.6	100
Total U.S.	23.6	37.9	61.5	18.8	14.4	3.0	2.3	100

Source: Media Business Corp.

TABLE 3
CALCULATION OF VERTICAL COST INCREASES FOR NBCU NATIONAL CABLE NETWORKS

MVPD	S_c	S_R	ΔP (\$ per month)	N (millions)	ΔC (millions of \$ per year)
DirecTV	.236	.188	\$.31	18.7	\$69.6
DISH	.236	.144	\$.30	14.3	\$51.5
Verizon	.236	.030	\$.26	3.0	\$ 9.4
AT&T	.236	.023	\$.26	2.3	\$ 7.2
Total					\$137.7

TABLE 4A
CALCULATION OF VERTICAL COST INCREASES FOR NBC O&Os: DIRECTV

DMA	SC	SR	Δ P (\$ per month)	N (thousands)	ΔC (thousands of \$ per year)
Philadelphia	.629	.110	\$.76	291.3	\$2,656.7
Chicago	.608	.179	\$.79	557.4	\$5,284.2
San Francisco	.572	.200	\$.77	435.2	\$4021.2
Miami	.528	.285	\$.79	352.5	\$3341.7
Washington, DC	.448	.186	\$.59	394.7	\$2794.5
Hartford New Haven	.389	.146	\$.49	117.1	\$688.5
New York	.095	.092	\$.11	660.6	\$872.0
Los Angeles	0	.251	\$0	1,189.0	\$0
Dallas Fort Worth	0	.215	\$0	508.1	\$0
San Diego	0	.122	\$0	117.3	\$0
Total					\$19,658.8

TABLE 4B
CALCULATION OF VERTICAL COST INCREASES FOR NBC O&Os: DISH

DMA	SC	SR	Δ P (\$ per month)	N (thousands)	ΔC (thousands of \$ per year)
Philadelphia	.629	.058	\$.71	154.7	\$1,318.0
Chicago	.608	.118	\$.74	365.1	\$3,242.1
San Francisco	.572	.126	\$.70	272.6	\$2289.8
Miami	.528	.090	\$.62	111.4	\$828.8
Washington, DC	.448	.105	\$.54	222.5	\$1441.8
Hartford New Haven	.389	.064	\$.44	51.1	\$269.8
New York	.095	.048	\$.11	344.4	\$454.6
Los Angeles	0	.133	\$0	627.2	\$0
Dallas Fort Worth	0	.188	\$0	445.2	\$0
San Diego	0	.084	\$0	81.1	\$0
Total					\$9,844.9

TABLE 4C
CALCULATION OF VERTICAL COST INCREASES FOR NBC O&Os: VERIZON

DMA	SC	SR	Δ P (\$ per month)	N (thousands)	ΔC (thousands of \$ per year)
Philadelphia	.629	.117	\$.76	309.4	\$2,821.7
Chicago	.608	0	\$.65	0	\$0
San Francisco	.572	0	\$.61	0	\$0
Miami	.528	0	\$.56	0	\$0
Washington, DC	.448	.131	\$.55	278.3	\$1,836.8
Hartford New Haven	.389	0	\$.42	0	\$0
New York	.095	.131	\$.12	932.8	\$1,343.2
Los Angeles	0	.068	\$0	321.6	\$0
Dallas Fort Worth	0	.064	\$0	151.5	\$0
San Diego	0	.004	\$0	3.6	\$0
Total					\$6,001.7

TABLE 4D
CALCULATION OF VERTICAL COST INCREASES FOR NBC O&Os: AT&T

DMA	SC	SR	Δ P (\$ per month)	N (thousands)	ΔC (thousands of \$ per year)
Philadelphia	.629	0	\$.67	0	\$0
Chicago	.608	.05	\$.68	155.5	\$1,268.9
San Francisco	.572	.061	\$.65	132.8	\$1035.8
Miami	.528	.058	\$.60	71.5	\$514.8
Washington, DC	.448	0	\$.48	0	\$0
Hartford New Haven	.389	.104	\$.46	83.9	\$463.1
New York	.095	.004	\$.10	29.9	\$35.9
Los Angeles	0	.037	\$0	174.6	\$0
Dallas Fort Worth	0	.095	\$0	224	\$0
San Diego	0	.066	\$0	64	\$0
Total					\$3,318.5

**CONSUMER HARM CAUSED BY THE COMCAST-NBCU
TRANSACTION**
(millions of \$ per year)

	Vertical	Horizontal	Total
NBCU National Cable Networks	\$137.7		
Comcast RSNs	\$0		
NBC O&Os	\$38.8		
Total	\$176.5		

HORIZONTAL HARM

1. Where will the harm occur and what programming will be affected?
 - harm occurs when NBCU “must have” programming is sold simultaneously with Comcast “must have” programming
 - NBCU “must have” programming
 - NBCU national cable networks
 - NBC O&Os
 - Comcast “must have” programming
 - seven major RSNs
 - NBCU national cable programming networks are sold all over the country
 - in all regions with a Comcast RSN, programming fees for the RSN and for the NBCU national cable networks will increase
 - in regions with a Comcast RSN that also have an NBC O&O, fees charged for retransmission consent will also increase

2. Best available evidence suggests that combined ownership of multiple blocks of “must have” programming causes fees to rise by at least 22%.

HORIZONTAL HARM (Cont'd)

3. Formula for programming cost increase

$$\Delta C = 12 \times .22 \times f \times N$$

ΔC , increase in annual programming cost

f , monthly per subscriber programming fee

N , total number of non-Comcast subscribers to the programming

4. For each type of programming (RSNs, NBCU national cable networks, NBC O&Os) we need to determine appropriate values of f and N and substitute them into the above formula.
5. Tables 5 and 6 present data necessary to calculate N .

TABLE 5
MVPD SUBSCRIBERS IN REGIONS SERVED BY COMCAST RSNS
(Thousands of subscribers for 1st quarter 2010)

DMA#	DMA	Comcast	Other	Total
CSN BAY AREA				
130	Chico-Redding, CA	48.7	125.0	173.7
195	Eureka, CA	0	42.2	42.2
124	Monterey-Salinas, CA	69.9	124.7	194.7
108	Reno, NV	0	231.8	231.8
20	Sacramento-Stockton-Modesto, CA	553.5	697.6	1,251.1
6	San Francisco-Oakland-San Jose, CA	1,242.3	928.5	2,170.7
55*	Fresno	238.3	272.0	510.3
	CSN Bay Area Total	2,152.7	2421.8	4574.6
CSN California				
125	Bakersfield, CA	0	176.9	176.9
189	Bend, OR	0	48.4	48.4
55	Fresno-Visalia, CA	238.3	272.0	510.3
124	Monterey-Salinas, CA	69.9	124.7	194.7
108	Reno, NV	0	231.8	231.8
20	Sacramento-Stockton-Modesto, CA	553.5	697.6	1,251.1
6	San Francisco-Oakland-San Jose, CA	1,242.3	928.5	2,170.7
130*	Chico, CA	23.4	60	83.4
CNS Chicago				
88	Cedar Rapids-Waterloo-Iowa City-Dubuque, IA	0	266.4	266.4
84	Champaign and Springfield-Decatur, IL	111.6	210.3	321.9
3	Chicago, IL	1,886.9	1,219.0	3,105.9
99	Davenport, IA, Rock Island-Moline, IL	26	224.6	250.6
107	Ft. Wayne, IN	83.9	163.5	247.4
25	Indianapolis, IN	396.8	631.6	1028.4
191	Lafayette, IN	39.9	18.4	58.3
116	Peoria-Bloomington, IL	104.4	108.5	212.9
134	Rockford, IL	84	83.8	167.8
91	South Bend-Elkhart, IN	122.9	177.9	300.8
171*	Quincy, Keokuk, IA	14.8	52.3	67.0
153*	Mason City, IA	0	19.9	19.9
200*	Ottumwa, IA	0	25.5	25.5
72*	Ames, IA	0	73.4	73.4
	CSN Chicago Total	2,871.2	3,275.1	6,146.3

TABLE 5 (Cont'd)
MVPD SUBSCRIBERS IN REGIONS SERVED BY COMCAST RSNS
(thousands of subscribers)

DMA#	DMA	Comcast	Other	Total
	CSN Mid-Atlantic			
27	Baltimore, MD	558.6	461.3	1,019.9
183	Charlottesville, VA	31.6	37.9	76.8
178	Harrisonburg, VA	38.9	37.9	76.8
43	Norfolk-Portsmouth-Newport News, VA	1.5	654.0	655.6
58	Richmond-Petersburg, VA	261.6	244.8	506.3
67	Roanoke-Lynchburg, VA	130.6	267.5	398.2
144	Salisbury, MD	64.1	76.4	140.5
9	Washington, DC, Hagerstown, MD	948.6	1171.0	2119.6
39*	York, PA	88.5	53.7	142.2
	CSN Mid-Atlantic Total	2,124.0	2,998.9	5,122.9
	CSN New England			
154	Bangor, ME	0	112.6	112.6
7	Boston, MA, Manchester, NH	1363.6	772.5	2136.2
77	Portland-Auburn, ME	26.4	302.7	329.0
205	Presque Isle, ME	0	25.5	25.5
53	Providence, RI, New Bedford, MA	137.7	435.1	572.8
111	Springfield-Holyoke, MA	133.2	83.5	216.8
94*	Burlington, VT	57.8	135.8	193.6
30*	Hartford, CT	156.2	245.7	401.9
	CSN New England Total	1,874.9	2,113.4	3,988.3
	CSN Northwest			
189	Bend, OR	0	48.4	48.4
119	Eugene, OR	76.9	122.4	199.3
22	Portland, OR	510.4	518.7	1,029.1
13	Seattle-Tacoma, WA	880.3	636.9	1517.2
75	Spokane, WA	101.3	253.0	354.2
	CNS Northwest Total	1,568.8	1579.3	3148.1
	CSN Philadelphia			
39	Harrisburg-Lancaster-Lebanon-York, PA	38.9	37.9	76.8
4	Philadelphia, PA	1,663.4	981.5	2,645.9
54	Wilkes Barre-Scranton, PA	138.0	327.5	3,187.4
	CNS Philadelphia Total	1,840.4	1347.0	3187.4
	Total for All RSNS (in millions of subs)	14.5	16.3	30.8

TABLE 6
SUBSCRIBERS TO COMCAST RSNs
(millions of subscribers for 2009)

RSN	Subscribers
CSN Bay Area	4.2
CSN California	3.4
CSN Chicago	4.7
CSN Mid-Atlantic	4.7
CSN New England	4.0
CSN Northwest	1.1
CSN Philadelphia	3.0
Total	25.1

Source: Bernstein Research

HORIZONTAL HARM FOR COMCAST RSNs AND NBCU NATIONAL CABLE NETWORKS

1. The value of N

- from Table 6, total number of RSN subscribers = 25.1 million
- how do we calculate the share of RSN subscribers that are not served by Comcast?
 - from Table 6, in the regions served by Comcast RSNs, 53% of the MVPD subscribers are served by MVPDs other than Comcast
 - assume that 53% of RSN subscribers are served by MVPDs other than Comcast

2. The values of f

- Kagan data for national cable networks
 $f = \$1.56$ per subscriber per month
- Bernstein Research data for Comcast RSNs
 $f = \$2.29$ per subscriber per month

HORIZONTAL HARM FOR COMCAST RSNs AND NBCU NATIONAL CABLE NETWORKS

3. Calculation of ΔC for Comcast RSNs

$$\begin{aligned}\Delta C &= 12 \times .22 \times f \times N \\ &= 12 \times .22 \times \$2.29 \times 13.3 \text{ million} \\ &= \$80.4 \text{ million}\end{aligned}$$

4. Calculation of ΔC for NBCU National Cable Networks

$$\begin{aligned}\Delta C &= 12 \times .22 \times f \times N \\ &= 12 \times .22 \times \$1.56 \times 13.3 \text{ million} \\ &= \$54.8 \text{ million}\end{aligned}$$

HORIZONTAL HARM FOR NBC O&Os

1. Same formula applies

$$\Delta C = 12 \times .22 \times f \times N$$

2. Value of f

$$f = \$.50$$

3. Value of N

- calculated in Table 7

- $N = 3.9$ million

4. Substitute $f = \$.50$ and $N = 3.9$ million into the formula to yield

$$\begin{aligned}\Delta C &= 12 \times .22 \times f \times N \\ &= 12 \times .22 \times \$.50 \times 3.9 \text{ million} \\ &= \$5.1 \text{ million}\end{aligned}$$

TABLE 7
CALCULATION OF HORIZONTAL COST INCREASES FOR NBC O&Os

(1)	(2)	(3)	(4)	(5)	(6)	(7)
DMA	RSN	non-Comcast MVPD subs in the DMA (thousands)	RSN subs (millions)	MVPD subs in region served by RSN (millions)	ratio of column (4) to column (5)	non-Comcast RSN subs in the DMA (thousands)
Philadelphia	PA	981.5	3.0	3.2	.94	922.6
Chicago	CH	1,219.0	4.7	6.1	.77	938.6
San Francisco	BA	928.5	3.4	4.7	.72	668.5
Washington, DC	MA	1,171.0	4.7	5.1	.92	1,077.3
Hartford	NE	245.7	4.0	4.0	1	245.7
Total						3,852.7

**CONSUMER HARM CAUSED BY THE COMCAST-NBCU
TRANSACTION**
(millions of \$ per year)

	Vertical	Horizontal	Total
NBCU National Cable Networks	\$137.7	\$54.8	\$192.5
Comcast RSNs	\$0	\$80.4	\$80.4
NBC O&Os	\$38.8	\$5.1	\$43.9
Total	\$176.5	\$140.3	\$316.8

PRESENT DISCOUNTED VALUE OF HARM

1. Appropriate to use the real interest rate because harms will increase with the rate of inflation.
2. Use $r = 5\%$
3. Annual total consumer harm

= \$316.8 million
4. PDV of consumer harm over 9 years, which the time period that ACA recommends that conditions be imposed for:

= $8.1 \times \$316.8$ million

= \$2.6 billion

OUTLINE

- I. Calculation of the consumer harm that will result from the transaction
- II. Israel-Katz Arguments on Reduced Double Marginalization**
- III. Calculation of the consumer benefit that will result from the transaction
- IV. Calculation of the net consumer harm that will result from the transaction
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REVIEW OF THE DEBATE

1. Assumptions:
 - subscription price for block of NBCU national cable networks is \$1.56 per subscriber per month
 - generally thought that per subscriber advertising revenues earned by programmers are approximately the same magnitude as per subscriber carriage fees
 - for purposes of calculations assume that advertising revenues per subscriber are exactly equal to \$1.56 per subscriber
 - therefore total NBCU revenue per subscriber is \$3.12

2. Original Argument of Israel-Katz
 - after the transaction Comcast will view its marginal cost of providing cable service as being lower by \$1.56 per subscriber per month because the subscription fee of \$1.56 will be a transfer payment between divisions
 - the benefits for consumers from a reduction in Comcast's programming costs must be weighed against the harms for consumers from an increase in rival MVPD's programming costs

REVIEW OF THE DEBATE (Cont'd)

3. Rogerson response:

- suppose that Comcast lowers its subscription price by a small amount to attract new customers
- suppose that θ of the new customers are customers that switch from some other MVPD
- then there is a new opportunity cost of $\theta \times \$1.56$ associated with switching customers
- therefore vertical integration only causes costs to drop by $(1-\theta) \times \$1.56$
- since θ is likely to be very close to 1, this means that the reduction in costs due to vertical integration is very close to zero
- e.g., if $(1-\theta) = .03$ then the cost reduction is \$.05

4. Israel Katz response:

- Rogerson analysis is correct in the simple model both sides have used up until now
- two new factors added to the model will increase the magnitude of the cost reduction
 - Factor #1: advertising revenues
 - Factor #2: subscribers to limited basic vs. expanded basic

FACTOR #1: ADVERTISING REVENUES

1. Israel Katz Argument:

- after vertical integration, Comcast will also take upstream advertising revenues into account
- therefore the correct magnitude of the cost drop is $(1 - \theta) \times \$3.12$

2. My response:

- this is correct
- however, 3% of \$3.12 is still only \$.09

FACTOR #2: LIMITED BASIC vs. EXPANDED BASIC

1. Israel Katz Argument

- suppose that Comcast lowers the price of expanded basic by small amount to attract new customers
- new customers may come from 4 different groups

Group 1: no previous MVPD subscription

Group 2: previously subscribed limited basic through Comcast

Group 3: previously subscribed to limited basic through another MVPD

Group 4: previously subscribed to expanded basic through another MVPD

- the opportunity cost is only associated with group 4 customers
- therefore, the reduction in cost is still given by

$$(1-\theta) \times \$3.12$$

- however in this model θ is the fraction of the arriving customers that are in group 4

- ### 2. Nothing in the generalized model suggests that θ will not still be very close to 1. No reason to change estimate of θ . Therefore my estimate of the reduction in cost due to reduced double marginalization is 3% of \$3.12 or \$.09.

**DATA ON TV HOUSEHOLDS, MVPD SUBSCRIBERSHIP
AND SUBSCRIBERSHIP TO THE USA NETWORK FOR
THE UNITED STATES**

- | 1. | Item | Subscribers
(millions) |
|----|-------------------------|---------------------------|
| | USA Network Subscribers | 100.5 |
| | MVPD Subscribers | 105.2 |
| | TV HOUSEHOLDS | 114.9 |
2. The number of limited basic subscribers is even smaller than the number of TV households that do not subscribe to an MVPD service.

ISRAEL KATZ ARGUMENT AS TO WHY θ WILL BE SMALL IS FLAWED

1. Suppose that Comcast lowers the price of expanded basic to attract more customers. Four groups of arriving customers:
 - Group 1: no previous MVPD subscription
 - Group 2: previously subscribed limited basic through Comcast
 - Group 3: previously subscribed to limited basic through another MVPD
 - Group 4: previously subscribed to expanded basic through another MVPD

2. Let g_i denote # of customers in Group i . Then

$$\theta = \frac{g_4}{g_1 + g_2 + g_3 + g_4}$$

3. Let h_i denote the number of households available of each type. Let α_i denote the share of these households that switch to Comcast expanded basic.

$$g_i = \alpha_i h_i$$

4. Israel-Katz have data on h_i 's. They try to argue that α_4 will be very small and that this therefore implies that g_4 will be very small. However a critical step of their argument relies on the unsupported and implausible assertion that $\alpha_3 = \alpha_4$.

OUTLINE

- I. Calculation of the consumer harm that will result from the transaction
- II. Israel-Katz Arguments on Reduced Double Marginalization
- III. Calculation of the consumer benefit that will result from the transaction**
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CALCULATION OF THE CONSUMER BENEFIT FROM REDUCED DOUBLE MARGINALIZATION

1. Reduction in marginal cost due to reduced double marginalization
$$= .03 \times \$3.12 = \$0.09$$
2. Number of Comcast subscribers
$$= 23.4 \text{ million}$$
3. Total annual consumer benefit from reduced double marginalization
$$= \$0.09 \times 12 \times 23.4 \text{ million}$$

$$= \$25.2 \text{ million}$$
4. This is the **ONLY** consumer benefit of the merger that Comcast-NBCU or its economic experts have even attempted to quantify.

OUTLINE

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CALCULATION OF THE NET CONSUMER HARM OF THE TRANSACTION

1. Annual Consumer Harm

= \$316.8 million

2. Annual Consumer Benefit

= \$25.2 million

3. Net Annual Consumer Harm

= \$316.8 million - \$25.2 million

= \$291.6 million

4. The quantifiable harms are more than 10 times as large as the quantifiable benefits.

5. PDV of Net Annual Consumer Harm Over a Nine Year Period, which is the length of time that ACA recommends that conditions be imposed for

= 8.1 x \$291.6 million

= \$2.4 billion

OUTLINE

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TABLE 7
ACA MEMBERS THAT CARRY EACH COMCAST RSN TO ≤ 125,000 SUBSCRIBERS

RSN	RSN subs (thousands)	# ACA Members*	ACA subs as a Percent of Total RSN subs
CSN Bay Area	4.2	8	2.65%
CSN California	3.4	7	3.09%
CSN Chicago	4.7	44	3.81%
CSN Mid-Atlantic	4.7	12	4.51%
CSN New England	4.0	15	4.08%
CSN Northwest	1.1	8	4.74%
CSN Philadelphia	3.0	13	11.92%
CSN Southeast	5.9**	26	3.34%
CSN Southwest	?	0	0%
Total***	31.0	133	4.51%

* The same member may be included in multiple rows because the member may carry more than one RSN listed

** SOURCE: CSN Southeast Press Release (8/18/2009)
 See http://www.css-sports.com/images/2009_hs_fb.pdf

*** Excluding CSN Southwest

TABLE 8
ACA MEMBERS THAT CARRY EACH NBC O&O TO ≤ 125,000 SUBSCRIBERS

DMA	DMA subs (millions)	# ACA Members*	ACA subs as a Percent of Total O&O subs
Chicago	3.1	6	6.99%
Dallas Ft. Worth	2.4	11	1.00%
Hartford-New Haven	.8	2	4.96%
Los Angeles	4.7	4	.18%
Miami	1.2	1	2.61%
New York	7.1	4	2.00%
Philadelphia	2.6	8	15.74%
San Diego	1.0	2	.08%
San Francisco	2.2	5	2.47%
Washington, DC	2.1	7	6.13%
Total	27.2	50	3.88%

* The same member may be included in multiple rows because the member may carry more than one RSN listed