

**In the Matter of Application of Comcast Corp. and  
Time Warner Cable Inc. for Consent to Assign or Transfer  
Control of Licenses and Authorization**

**MB Docket No. 14-57**

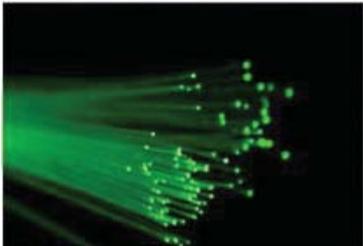
**FCC Meeting  
November 24, 2014**



**CenturyLink™**

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## CenturyLink is the Third Largest Communications Provider In the U.S. and a Growing MVPD Operator



- CenturyLink offers advanced communications to over 14 million homes, federal, state, and local governments and businesses in 50 states and select international markets
- CenturyLink services include voice, broadband, video entertainment and data services
- CenturyLink cloud computing services have become one of the world's largest cloud computing and hosting companies
- CenturyLink continues to provide its voice and broadband services and has also joined the video and gig services markets

# CenturyLink is a Growing MVPD Operator

- CenturyLink currently provides **facility-based multichannel video programming** to approximately **215,000 customers in 12 markets**
- CenturyLink added approximately 14,000 CenturyLink® Prism™ TV customers during third quarter 2014, increasing penetration of the more than **2.2 million addressable homes to approximately 10.3%**
- **Ninety percent of our new Prism™ customers also purchase high-speed Internet service**, which resonates well for those who prefer over-the-top streaming video alternatives
- CenturyLink's entry adds much needed **consumer choice** in the facility-based video distribution market. Generally, CenturyLink is the **only facility-based competitor to the local cable provider** in markets it enters



# What is CenturyLink™ Prism™ TV?

- **As an MVPD, CenturyLink offers Prism™, an advanced TV service delivered over CenturyLink's dynamic fiber-optic network. It's not cable or Satellite TV.**
- **CenturyLink™ Prism™ is an interactive TV offering including**
  - Over 500 channels
    - 200+ HD channels
    - Premium networks
    - International channels
  - Video On-Demand
  - Whole Home DVR
  - Prism™ On the Go TV Everywhere
  - Advanced features including
    - Warp speed channel change
    - Interactive Dashboard – access to apps such as social network sites and local weather
    - Find-It-Fast Navigation – search by favorite actor, title, director
    - Last-Five – Flip between the last 5 channels watched
    - Multi-View – Watch four shows in a specific genre on one screen at a time



# Merger Concerns

- **Impacts of Content Costs to Fiber-Based Broadband Investment**
- **Impacts on Cable Advertising**

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## CenturyLink Real-World Example: Denver, CO 1 Gbps Business Case

- **CenturyLink offers symmetrical broadband speeds up to 1 Gbps in select locations in 16 cities using fiber-to-the-premise technology**
- **Our Denver deployment**
  - Covers approximately 1 million households
  - CenturyLink will significantly increase its capital investment during the next 18 months
    - Enable households with broadband speeds from 40Mbps – 1 Gbps
    - Over time, all of these homes will have access to video service
- **To justify the investment and determine the ROI, CenturyLink must be able to offer both high-speed Internet and video for the revenue stream to justify the investment**
- **Our experience tells us:**
  - Subscribers are less likely to churn if they have both broadband and video products
  - In fact, the monthly churn for customers who subscribe to the triple play of voice, video and data is [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] basis points lower than those who only subscribe to data alone
  - Over 90% of CenturyLink Prism subscribers also subscribe to our high-speed Internet service
  - Comparing the business case with and without video, the ROI for offering data only over our new fiber network does not justify the investment

## Content is the Single Largest Cost Component for Video Service . . . By Far

- **CenturyLink enjoys some economies of scale through**
  - Growing Prism subscriber base
  - Affiliation with the National Cable and Telecommunications Cooperative (NCTC). NCTC represents over 12 million subscribers today
- **Rising content costs can cause a fiber business case to fail**
  - [BEGIN CONFIDENTIAL]
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**Increases in Content Costs Reduce the ROI  
and can Cause the Business Case to Fail**

# Impact of Comcast-TWC Merger

- **Large providers with more “eyeballs” benefit with lower content costs**
  - Comcast’s current content cost per subscriber is estimated to already be approximately 20% lower than ours
  - AT&T expects their merger with DirecTV will result in a 20% reduction in content costs
- **Content Providers tend to play a “zero sum” or better game**
  - Rather than accept a revenue decline, it’s expected that content providers will seek to recover at least a portion of the reduction from other MVPDs in the industry
  - As a second entrant, CenturyLink has minimal value when negotiating for reasonable content costs
- **Consumers will be harmed if Comcast drives facilities-based competitors from markets**
  - Facilities based competition spurs the incumbent monopoly providers to implement innovative products and services
  - For example, Comcast had the capability to implement whole home DVR in mid-2000
  - It did not, however, deploy this popular service until after CenturyLink successfully launched it in several Comcast markets
  - Similarly, the fact that CenturyLink has more HD channels than any other MVPD incents companies to continually look for opportunities to improve their channel line up

**If the Merger is Approved, the Combined Company’s  
Purchasing Power Threatens to Push Their Margins  
Wider and Further from the Rest of the Industry**

## Broadcast Retransmission Consent Fees Place Pressure on Content Costs

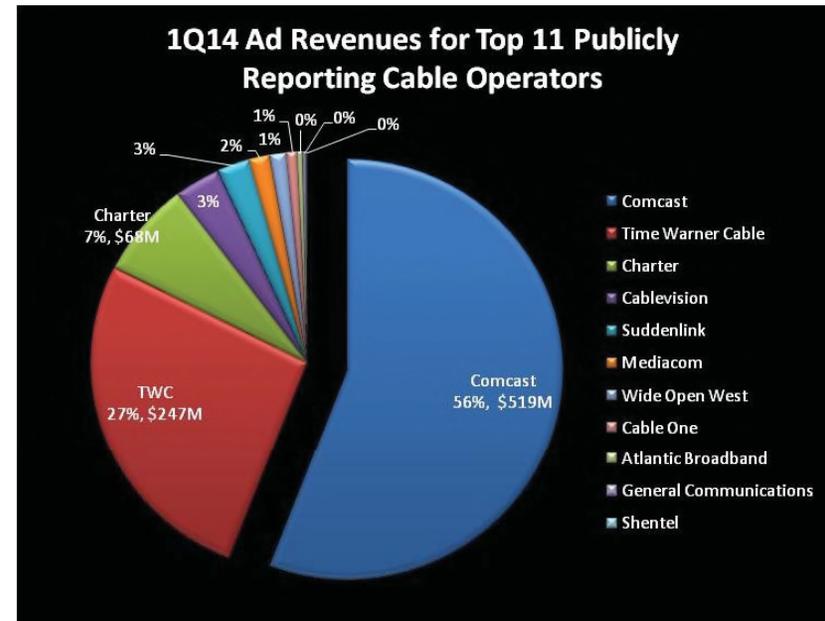
- **CenturyLink is in a retransmission consent cycle and negotiating approximately 72% of our local content deals. These negotiations are no longer “local” in nature**
  - CenturyLink must negotiate retransmission consent agreements for 75 broadcast stations by the end of 2014
  - In the last cycle, those agreements were with 42 different entities
  - This cycle, the same content is now represented by 28 different entities
- **Retransmission consent costs are already rising at an alarming rate**
  - SNL Kagan projects retransmission consent fees to reach \$9.3B by 2020 versus the projected level of \$4.88B this year
- **Comcast-TWC merger will create additional pressures against ownership groups**
  - In a single year (2011-2012), Comcast/NBC retransmission consent revenue grew from nearly zero to \$40M. This figure ballooned to \$200M in 2013 and is expected to be \$350M in 2014
  - Comcast/NBC has further stated its desire to approach CBS’s reported retransmission consent fee total of \$1B by 2017

**The Proposed Merger will Increase  
Content Costs and Impede Competition**

# Cable Advertising

- As CenturyLink Prism market penetration and subscribers increase, advertising becomes an important additional revenue source that can offset programming costs
- Approximately 25% of advertising time is used for CenturyLink advertising
- Remaining 75% of advertising time is filled with ads sold directly to advertisers or obtained via the Regional Interconnects
- With the merger, Comcast will have the ability to disadvantage smaller MVPDs by limiting access to Regional Interconnects and advertising revenue
- Comcast will own 80% of NCC, the source of national advertising
- Comcast will control 80% of the Regional Interconnects that reach 60% of total US homes and provide advertising across a specific market

Spot Cable Advertising is a \$5.4B Annual Market



Source: SNL Kagan Multichannel Market Trends, June 9, 2014  
<http://www.snl.com/interactivex/article.aspx?id=28256943&KPLT=2>

*MVPDs are allowed by cable content agreements to sell approximately 2 minutes of advertisements per hour*

**Comcast will have Significant Control over Ad Placement and Interconnects**

# The Inevitable Outcome

- **The business model pressures due to rising content costs lead to inevitable outcomes**
  - At some point, the margins become either too small, or non-existent
  - Without that margin, we cannot invest in fiber-based “broadband” only residential networks
  - At that point, there is little incentive to invest and compete in a market to offer consumer services
- **CenturyLink is a valuable competitive provider offering**
  - Alternative choice to consumers
  - Innovative features
  - Differentiated programming
  - Flexible pricing options

## **Substantial Threats Posed to Competition Justify the Commission Declining to Approve the Transaction**

**If the Commission Approve the Transaction, there must be Commitments and Conditions that Address the Ensuing Competitive Harms**