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REDACTED – FOR PUBLIC INSPECTION

December 5, 2014

VIA ELECTRONIC FILING

Marlene H. Dortch
Federal Communications Commission
Office of the Secretary
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: ***Applications of Comcast Corp., Time Warner Cable Inc., Charter Communications, Inc., and SpinCo for Consent to Assign or Transfer Control of Licenses and Authorizations,*** **MB Docket No. 14-57**
REDACTED – FOR PUBLIC INSPECTION

Dear Ms. Dortch:

At the request of Commission staff, Comcast Corporation ("Comcast") hereby submits the enclosed letter, which has been redacted for public inspection, providing additional information regarding how the above-captioned transaction will enable the combined company to compete more effectively for large, multi-location business customers. The **{{ }}** symbols denote where Highly Confidential Information has been redacted. A Highly Confidential version of this filing has been submitted to the Office of the Secretary under separate cover and will be made available for inspection pursuant to the terms of the Modified Joint Protective Order in effect in this proceeding.[1]

Please contact the undersigned should you have any questions regarding this matter.

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[1] *Applications of Comcast Corp. and Time Warner Cable Inc. for Consent to Assign or Transfer Control of Licenses and Authorizations*, Second Amended Modified Joint Protective Order, MB Docket No. 14-57, DA 14-1639 (Nov. 12, 2014) ("Modified Joint Protective Order").

Respectfully submitted,

/s/ Francis M. Buono
Francis M. Buono
Counsel for Comcast Corporation

Enclosure

December 5, 2014

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Secretary
Federal Communications Commission
445 12th Street, S.W.
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Re: ***Applications of Comcast Corp., Time Warner Cable Inc., Charter Communications, Inc., and SpinCo for Consent to Assign or Transfer Control of Licenses and Authorizations,*** **MB Docket No. 14-57**
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Dear Ms. Dortch:

As detailed in Applicants' Public Interest Statement and accompanying economic analyses prepared by Dr. Israel and Drs. Rosston and Topper in the above-captioned proceeding,[1] and as summarized in the November 12, 2014 ex parte letter filed on behalf of Comcast Corporation ("Comcast"),[2] the above transaction will enhance Comcast's ability to serve multi-location businesses more effectively, which will lead to much-needed additional competition in the business services market and significant benefits for many business customers. At the request of Commission staff, Comcast sets forth below several concrete examples of multi-location enterprise and super-regional businesses that Comcast is not able to effectively compete for today but that it would be able to compete for post-transaction given the enhanced footprint and greater operational and cost efficiencies of the combined company.

Historically, geographic constraints and lack of experience in this area have limited Comcast, Time Warner Cable ("TWC"), and other cable operators from competing effectively against incumbent telcos that have been in this marketplace for decades (and began under one roof). The incumbent telcos have extensive MPLS/T1 and DSL networks that are largely standardized and (in the case of DSL) require little, if any, additional facilities construction or deployment in commercial areas. Telcos have decades of experience working together to provide a unified offering across their footprints. Given the lack of competition in this marketplace, the telco offerings tend to be expensive and generally do not offer the same speeds Comcast can offer where it has facilities. Nonetheless, Comcast has been hamstrung in competing effectively for these accounts both because of Comcast's geographically constrained

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[1] Applications and Public Interest Statement of Comcast Corporation and Time Warner Cable Inc., MB Docket No. 14-57 (Apr. 8, 2014) ("Public Interest Statement"); *id.*, Exhibit 6, Declaration of Dr. Mark A. Israel ("Israel Decl."); *id.*, Exhibit 5, Declaration of Dr. Gregory L. Rosston and Dr. Michael D. Topper ("Rosston/Topper Decl.").

[2] Letter from Kathryn A. Zachem, Comcast Corporation, to Marlene H. Dortch, FCC, MB Docket 14-57 (Nov. 12, 2014).

network coverage and Comcast's lack of experience successfully aggregating out-of-market providers to deliver a compelling offering. As a result, it is challenging for many large, multi-location businesses to justify choosing Comcast, because, in most cases, these businesses find it less burdensome and costly to work with a single-source telco provider that has both a large footprint and a demonstrated ability to deliver a unified offering to as many of their locations as possible.[3]

The transaction will substantially improve this competitive dynamic. It will enable Comcast to offer a unified set of seamless products and services to business customers throughout the combined company's expanded footprint with greater operational and cost efficiencies (by reducing the coordination problems, providing the benefits of "owner's economics" for more locations, and avoiding double marginalization associated with partnering with one or more other network providers to deliver services outside of the company's footprint), thereby allowing it to compete more effectively against incumbent telcos. And the reduction in marginal cost, including the elimination of double marginalization, will result in lower prices and improved service to business customers.[4]

In particular, because serving out-of-footprint locations is generally more costly than serving on-net locations, a greater number of business locations within the combined company's footprint increases the likelihood that a business services project will meet Comcast's threshold internal rate of return (or "hurdle rate") when assessing whether to bid to serve a multi-location business.[5] It will also increase the likelihood that a wider array of multi-location businesses will consider Comcast as an alternative to their current service provider due to the additional sites

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[3] Comcast and TWC together account for only approximately 6.4% of the overall business services segment in the entire United States. In contrast, the incumbent telcos account for the vast majority of revenue in the segment, both within Comcast and TWC's combined footprint and more broadly across the country. *See* Israel Decl. ¶¶ 144-154; *id.* n.177 (noting that incumbent telcos are likely more than 10 times as large as Comcast and TWC in terms of business services revenues).

[4] *See* Israel Decl. ¶¶ 144-154; Rosston/Topper Decl. ¶¶ 122-133.

[5] *See* Israel Decl. ¶¶ 142-143; *see also id.* ¶ 151 ("The lower margins earned on out-of-network locations have two important implications for business customers. First, the lower margins make it less profitable for Comcast (or TWC) to bid on a project and increase the likelihood that a project will fail to meet Comcast's (or TWC's) internal hurdle rates. To the extent that the lower return arising from double marginalization prevents Comcast (or TWC) from bidding on a project, competition in the business services segment is reduced. For example, of the **{{ }}** business opportunities evaluated by Comcast over the past **{{ }}** months for contracts requiring off-net connectivity **{{ }}**, Comcast won only **{{ }}** of the bids. Comcast did not bid on **{{ }}** of these opportunities as it could not come up with a viable off-net solution to fulfill the contract, and lost bids (or is still waiting to hear from the customers) for the remaining **{{ }}** opportunities. Second, even to the extent that Comcast (or TWC) finds it worthwhile to bid on a project, the higher costs often lead to higher prices. For example, Comcast recently assessed three service packages sold to super-regional firms and concluded that the customers paid between **{{ }}** more than they would have paid had Comcast been able to serve all of the customers' locations 'on-net.'").

that can be served by the combined company's network, which will enhance not only the economics of the relationship, but also the ability of the combined company (which will have to rely less on out-of-network partners) to deliver a more coordinated, uniform, and consistently high-level of service performance across the customer's sites.

In short, if Comcast's network covers a higher percentage of a potential customer's sites on-net, it will have both a greater incentive to bid for that company's business and a significantly improved chance to win the account. As Dr. Israel has previously described it, "to the extent the proposed transaction increases the percentage of locations that are within-footprint locations for any given bidding opportunity, it increases the chances that the combined firm can bid on and win that opportunity."[6] For example, Comcast believes that on-net coverage levels above **{{ }}**% materially improve its chances of success. Of course, other factors come into play in certain situations as well, including but not limited to (i) the ability to serve on-net cities of key importance to the potential customer, such as New York, Los Angeles, or Chicago, or the site of the company's headquarters and data centers, (ii) the breadth of the opportunity and ability to sell related services on a broad scale, and (iii) the extent to which the potential customer is comfortable contracting with separate providers on a regional basis. Such considerations may (in certain instances) both justify less favorable "owner's economics" from Comcast's standpoint and allow Comcast to bid for and win the account even at lower on-net coverage rates.

For these reasons, Comcast believes that the enhanced on-network coverage for each of the illustrative examples of enterprise and super-regional businesses identified below (and many other businesses) made possible by the transaction would make Comcast a much more attractive option for these businesses, such that Comcast would be in a materially enhanced position to win a competitive bid against incumbent telcos and others to serve the business post-transaction. These examples are based on database information on target customers kept by Comcast in the ordinary course of business and ongoing analyses from Comcast Business.[7] As noted below,

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[6] *Id.* ¶ 142; *see also id.* ¶ 153 ("In particular, by replacing the lower 'out-of-footprint' margins with higher 'in-footprint' margins, the transaction will reduce the marginal costs (by eliminating the double margin) associated with any project that includes locations spanning the Comcast and TWC footprints, thereby making it more profitable for the combined firm to bid on more projects, benefiting consumers and increasing competition. Moreover, the combined firm will have an incentive to pass through some or all of the reduced marginal cost of serving super-regional businesses via lower prices, higher quality offerings, or both, because lowering prices and/or raising quality – and thus capturing more share – is profit-maximizing when marginal costs fall. In addition . . . internal governance structures combined with common incentives are likely to be more effective in providing a well-coordinated offering than are contracts between independent firms, thus leading to higher quality and more seamless service.").

[7] For the sake of simplicity and because Comcast does not have access to accurate data regarding business sites in the Charter territories being acquired, the examples provided herein do not take into account the Divestiture Transactions. However, this does not affect the analysis. While there may be fewer on-net locations for some of these companies after the Divestiture Transactions than after the TWC transaction, the Divestiture Transactions also will yield additional on-net locations (i.e., since these companies all have some presence in current Charter

Comcast Business has been in active discussions with several of these companies, but has thus far not been able to win their business.

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territories), and in fact may yield a denser set of locations in certain areas (e.g., greater Boston and greater Los Angeles) due to the enhanced geographic rationalization from the Divestiture Transactions. *See* Comcast Corp. and Time Warner Cable Inc., Opposition to Petitions to Deny and Response to Comments, MB Docket No. 14-57, Exhibit 2, Reply Declaration of Dr. Gregory L. Rosston and Dr. Michael D. Topper, ¶¶ 15-17 (Sept. 23, 2014).

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Please direct any questions to the undersigned.

Respectfully submitted,

/s/ Kathryn A. Zachem

Senior Vice President,
Regulatory and State Legislative Affairs
Comcast Corporation

cc: Hillary Burchuk
Eric Ralph
Bill Rogerson