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REDACTED – FOR PUBLIC INSPECTION

February 24, 2015

VIA ELECTRONIC FILING

Marlene H. Dortch, Secretary
Federal Communications Commission
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:

Comcast Corporation hereby submits a redacted, public version of the enclosed *ex parte* letter. The **{{ }}** symbols denote where Highly Confidential Information has been redacted. A Highly Confidential version of this filing, including accompanying Highly Confidential backup data and documents, has been submitted to the Office of the Secretary pursuant to the Second Amended Modified Joint Protective Order in this proceeding, and will be made available for inspection.[1]

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

Respectfully submitted,

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

Enclosure

cc: Hillary Burchuk, William Dever, Shane Greenstein, Eric Ralph, William Rogerson

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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, 29 FCC Rcd. 13799 (2014) ("Second Amended Modified Joint Protective Order").

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Dear Ms. Dortch:

This letter responds to staff requests for additional information quantifying the business services benefits that Comcast and Time Warner Cable ("TWC," and, together, "Applicants") have shown would result from the transaction in the above-captioned proceeding. As explained below and in the accompanying PowerPoint deck created by the Comcast Business team, *the transaction will yield approximately {{ }} in cost savings over 10 years for enterprise business customers alone (i.e., large multi-location businesses with 500+ employees).*[1]

Introduction and Summary

As Applicants have previously demonstrated, the transaction will produce significant public interest benefits by combining the two companies into a stronger, more cost-efficient competitor that can offer new options and aggressively priced services to small, medium, and enterprise businesses ("SMBs") across most of the country, challenging the incumbents that have

[1] This is, in fact, a conservative estimate, not only due to the assumptions that were made in this analysis as described below, but also because it focuses solely on telecom services for the enterprise business segment (one that Comcast is committed to aggressively pursue) and thus is in addition to the various cost savings and other benefits the transaction will also bring to regional, super-regional, and small and medium-sized businesses, as demonstrated in the record of this proceeding. *See* Comcast Corporation and Time Warner Cable Inc., Applications and Public Interest Statement ("Public Interest Statement"), MB Docket No. 14-57, at 90-97 (Apr. 8, 2014); Comcast Corporation and Time Warner Cable Inc., Opposition to Petitions to Deny and Response to Comments ("Opposition and Response"), MB Docket No. 14-57, at 68-74 (Sept. 23, 2014); Comcast Corporation and Time Warner Cable Inc., Reply to Responses ("Reply to Responses"), MB Docket No. 14-57, at 18-20 (Dec. 23, 2014). These estimates also do not account for benefits related to cloud and managed services, which are increasingly offered by telcos and other providers to large enterprise businesses. With the transaction, the new Comcast would be a credible competitor in this product space and could increase competition and lower prices for enterprise business in those areas as well, which would further increase the business services benefits associated with this transaction.

dominated this marketplace for decades. The competitive benefits for the medium-sized and enterprise businesses will be especially substantial and far-reaching. In particular, the transaction 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;[2]

- drive greater investment and allow Comcast to compete more effectively against incumbent telcos for multi-location enterprise and super-regional business that Applicants are not able to effectively compete for today.[3] This, plus the reduction in double marginalization and elimination of coordination problems between Comcast and TWC, will result in lower prices and improved services to business customers;[4] and

- spur investment by Comcast to build out its network to serve sites that become profitable only when the project is evaluated across the post-transaction footprint.[5] Such enhanced investments in Comcast's core network as a result of increased scale and greater opportunities in business services will also redound to the benefit of residential and SMB customers.[6]

Moreover, the increased competition from the combined company (hereinafter "New Comcast") will also benefit enterprise business customers that do *not* purchase services from New Comcast (hereinafter "non-New Comcast customers"), because it will encourage existing business service providers to be more competitive in their business service offerings, which will lead to price convergence between New Comcast and other providers and lower prices for non-New Comcast customers.[7]

During the FCC's recent Economic Analysis Workshop ("Workshop"), Commission staff asked how the Commission staff should think about the quantification of these business services

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2 *See* Public Interest Statement at 90-97; Opposition and Response at 68-74; Reply to Responses at 18-20; Public Interest Statement, Exhibit 5, Declaration of Dr. Gregory L. Rosston and Dr. Michael D. Topper ("Rosston/Topper Decl.") ¶ 131.

3 *See* Public Interest Statement, Exhibit 6, Declaration of Dr. Mark A. Israel ("Israel Decl.") ¶¶ 142-154; Rosston/Topper Decl. ¶¶ 61–62, 130; Opposition and Response, Exhibit 2, Reply Declaration of Dr. Gregory L. Rosston and Dr. Michael D. Topper ("Rosston/Topper Reply Decl.") ¶¶ 24–27.

4 *See* Israel Decl. ¶¶ 142-154; Rosston/Topper Decl. ¶¶ 122-133; Rosston/Topper Reply Decl. ¶ 27.

5 *See* Rosston/Topper Reply Decl. ¶¶ 25-26.

6 *See* Israel Decl. ¶¶ 171-201; Rosston/Topper Decl. ¶ 63; Rosston/Topper Reply Decl. ¶ 28.

7 *See* Rosston/Topper Decl. ¶¶ 81-82.

benefits.[8] Comcast and its experts have previously identified specific examples of these transaction-related benefits to business customers.[9] However, following up on this question at the Workshop, Comcast has also performed an analysis to further quantify the transaction-specific benefits to potential enterprise business customers.

This analysis shows that the transaction is expected to generate a 10-year incremental value of **{{ }}** for enterprise business customers, which includes **{{ }}** in cost savings to enterprise business customers that purchase services from New Comcast and **{{ }}** in cost savings to other enterprise businesses. These substantial benefits completely overwhelm the harms alleged in this proceeding.[10]

The remainder of this letter explains this quantification analysis, including the assumptions used that are substantiated by the past experience of Comcast and TWC. The analysis is also set out in summary form in the PowerPoint deck attached as Exhibit 1.

I. Quantification of Benefits to Enterprise Business Customers

Comcast's analysis of the transaction-specific benefits to enterprise businesses is based on a database provided by Fractal Analytics, which contains the site location and telecom spending information for about 2,500 of the largest public companies in the United States.[11] The benefit estimate based on this database is then scaled up to the entire enterprise segment. Specifically, the analysis uses the following four steps, each of which is summarized below and

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[8] Transcript of Economic Analysis Workshop, Federal Communications Commission, Proposed Comcast-Time Warner Cable-Charter Transaction, January 30, 2015 (hereinafter, *FCC Workshop Transcript*), at 366:6-12 (Eric Ralph: "One of things we're struggling with is to think about how to measure the size of the gains that arise from serving a larger area, how can we give those a tangible value, and we in doing that, want to account for the fact that we've heard that, you know, you have difficulties with contracting.").

[9] *See, e.g.*, Israel Decl. ¶¶ 133-161; Rosston/Topper Decl. ¶¶ 116-141; Opposition and Response, Exhibit 1, Reply Declaration of Dr. Mark Israel ("Israel Reply Decl.") ¶¶ 159-160, Rosston/Topper Reply Decl. ¶ 25; Letter from Kathryn A. Zachem, Senior Vice President, Regulatory and State Legislative Affairs, Comcast Corp., to Marlene H. Dortch, Secretary, FCC (Dec. 23, 2014); Letter from Kathryn A. Zachem, Senior Vice President, Regulatory and State Legislative Affairs, Comcast Corp., to Marlene H. Dortch, Secretary, FCC (Dec. 5, 2014) (detailing specific examples of enterprise and super-regional companies whose business the combined company would be in a better position to win).

[10] For example, while some have claimed that the transaction would be harmful because Comcast has "leverage" over interconnection agreements, the revenues Comcast has earned to date from such putative "leverage" are less than **{{ }}** of *even one year* of enterprise business services savings – **{{ }}**. *See* Comcast FCC Exhibit 125.1. And in any event, there are no "harms" that arise from the modest amounts that Comcast charges for direct interconnection.

[11] The Fractal Analytics database is constructed from the union of the Fortune 1000 companies and Russell 3000 companies. The Fortune 1000 list includes the largest 1,000 U.S. companies by revenue for which revenues are publicly available. The Russell 3000 list is a stock market index of the 3,000 largest publicly-held U.S. companies, representing approximately 98 percent of the investable U.S. equity market. The combination of these lists results in 2,517 companies that Comcast was able to match to the D&B database of business locations. Estimates of annual telecom spending are drawn from the Georesults database.

then discussed in detail in turn. The ensuing description also tracks and explains the calculations in the attached deck.

- **Step 1**: Identify companies in the Fractal Analytics database for which standalone Comcast or TWC (without the transaction) and New Comcast (with the transaction) have a site coverage of **{{ }}** percent or higher, respectively.

- **Step 2**: Determine the set of companies for which standalone Comcast or TWC (without the transaction) and New Comcast (with the transaction) can be an effective competitor. In both scenarios, these are companies that (i) become potential customers for a new service provider (e.g., because their contracts with existing providers are expiring) and (ii) have at least **{{ }}** percent of their sites covered by the relevant provider (standalone Comcast or TWC in the scenario without the transaction and New Comcast in the scenario with the transaction) on-net.[12] The annual telecom spending of these companies is considered to be the "in-play" revenue for the relevant provider (standalone Comcast or TWC in the scenario without the transaction and New Comcast in the scenario with the transaction).

- **Step 3**: Using the telecom spend figures in Step 2, estimate the expected revenues that would go to (a) Comcast and TWC in the scenario without the transaction, and (b) New Comcast in the scenario with the transaction. These estimations are based on the relevant provider's chance of winning "in-play" customers in each scenario. Then calculate the difference between the expected revenues with and without the transaction, which is the incremental "in-play" revenue that New Comcast expects to win with the transaction relative to what standalone Comcast and TWC are expected to win without the transaction.

- **Step 4**: Estimate the expected cost savings to the incremental enterprise business customers that are expected to switch to New Comcast post-transaction, by multiplying the transaction-related incremental revenue for New Comcast (estimated in Step 3) by an estimated amount of cost savings that New Comcast can offer relative to the incumbent telcos based on the experiences of Comcast and TWC in the business services market. In addition, estimate the incremental competition-related cost savings to *non-New Comcast customers* by applying the cost savings for New

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[12] *See* Letter from Kathryn A. Zachem, Senior Vice President, Regulatory and State Legislative Affairs, Comcast Corp., to Marlene H. Dortch, Secretary, FCC, at 3 (Dec. 5, 2014) (noting that on-net coverage levels of potential business customers increases the chances that the combined company can bid on and win that opportunity, and that Comcast believes that on-net coverage levels above **{{ }}** percent materially improve its chances of success). **{{**

}}. Because the number **{{ }}** percent is not a hard and fast rule, the analysis first rounded each company's site coverage to the nearest percentage point and then counted companies as "in play" if that percentage was greater than or equal to **{{ }}** percent.

Comcast customers to the incremental "in-play" revenues associated with non-New Comcast customers, based on Applicants' experience that the increased competition from New Comcast will result in price convergence between telcos and New Comcast.

A. Step 1: Identify companies in the database for which standalone Comcast and TWC, and New Comcast, have a site coverage of {{ }} percent or higher

The Fractal Analytics database contains information on the percentage of each company's sites that are covered by zip codes within the current footprint of Comcast and TWC, respectively, as well as by zip codes within the combined footprint of New Comcast after the transaction. Using this information, the analysis estimates that, without the transaction, Comcast or TWC alone will have a site coverage of **{{ }}** percent or higher for **{{ }}** companies in the Fractal Analytics database (with approximately **{{ }}** in total annual telecom spending). With the transaction, New Comcast is estimated to have a site coverage of **{{ }}** percent or higher for **{{ }}** companies in the Fractal Analytics database (with approximately **{{ }}** in total annual telecom spending). Thus, the transaction will increase the number of customers in this database for which New Comcast has a **{{ }}** percent or higher site coverage by over **{{ }}**, with the incremental customers having annual telecom spending of **{{ }}**.[13]

B. Step 2: Estimate the potential "in-play" revenues both without and with the transaction

Recognizing that not all enterprise businesses are potential customers at any point in time, the analysis assumes that each year only a certain percentage of businesses become potential customers for a new service provider (e.g., because the customers' contracts with their existing providers are expiring or cancelled). Based on Comcast's and TWC's experience, the analysis assumes this percentage to be **{{ }}**.[14]

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[13] Site coverage in both scenarios is estimated by assuming that Comcast (or TWC) is able to service **{{ }}** percent of the enterprise business's site locations that fall in a zip code where Comcast (or TWC) provides any service. Although Comcast and TWC are in many areas built out to more than **{{ }}** percent of locations within their footprints today and expect that the transaction will enable New Comcast to build out even further to more business site locations, Comcast deemed this assumption to be a reasonable reflection of the current state of its network.

[14] Based on Comcast's and TWC's experience, an average enterprise service contract lasts around **{{ }}** years, meaning that **{{ }}** percent of the contracts come up for renewal each year. Because of inertia and other factors, not all customers with an expiring contract will open their business to alternative providers. The analysis makes the conservative assumption that only **{{ }}** of the customers with an expiring contract will be open to switching providers, which implies an annual rate of about **{{ }}** percent (or a monthly rate of **{{ }}** percent). The analysis further assumes that, with **{{ }}**-year contracts, the revenue that is newly "in play" due to the transaction does not come up for renewal prior to **{{ }}**.

Combined with the assumption in Step 1, the analysis assumes that each year **{{ }}** percent of the companies for which Comcast or TWC have a **{{ }}** percent or higher site coverage will become "in-play" customers for Comcast and TWC, i.e., customers that Comcast or TWC has a reasonable chance of winning.

Without the transaction, the in-play revenue (i.e., the telecom spending associated with "in-play" customers) is estimated to be approximately **{{ }}** in 2015, growing to approximately **{{ }}** in 2024 for standalone Comcast and TWC combined. With the transaction, the in-play revenue is estimated to be approximately **{{ }}** million in 2015, growing to **{{ }}** million in 2024 for New Comcast. Over the 10-year period, the transaction will increase the cumulative in-play revenue for New Comcast by **{{ }}** billion (relative to standalone Comcast and TWC without the transaction).

C. Step 3: Estimate expected revenues both without and with the transaction

With the in-play revenues estimated in Step 2, the analysis next estimates how much of those revenues Comcast or TWC expects to win on a standalone basis without the transaction and on a combined basis with the transaction. With the transaction, New Comcast will be able to compete for more customers (as shown in Step 2) and increase its experience and competitiveness faster than standalone Comcast and TWC would be able to without the transaction. Based on Comcast's and TWC's experience and expectation, the analysis assumes that, without the transaction, standalone Comcast or TWC will win 5 percent of the in-play customers in 2015, rising to 25 percent by 2019 and beyond. With the transaction, it is assumed that New Comcast will win 5 percent of the in-play customers in 2015, rising to 25 percent in 2017 (i.e., two years earlier than without the transaction).

Based on these assumptions, the analysis estimates that, without the transaction, standalone Comcast and TWC combined would have expected revenue of approximately **{{ }}** in 2015, growing to **{{ }}** in 2024. With the transaction, New Comcast is expected to have revenue of **{{ }}** in 2015, growing to **{{ }}** in 2024. These estimates imply that over the 10-year period of 2015–2024, the transaction is expected to increase New Comcast's enterprise business revenues from the companies in the Fractal Analytics database by approximately **{{ }}** relative to the expected revenues of Comcast and TWC on their own without the transaction.

As noted, the Fractal Analytics database contains only a subset of potential enterprise customers (i.e., the largest *public* enterprise companies), and yet Comcast expects to win more revenues in the entire enterprise market beyond this set. To estimate the total expected incremental revenue for New Comcast from the entire enterprise business segment, the analysis assumes that the companies in the Fractal Analytics database have a similar site location distribution as that of the full enterprise business segment.[15] Based on this assumption, the

[15] Based on its discussions with Fractal Analytics (which also maintains data on the entire enterprise business market segment), Comcast believes this assumption to be reasonable.

analysis scales up the transaction-related incremental revenue estimated for companies in the database to the entire enterprise business segment. The scaling factor is around **{{ }}**, which is the ratio between the size of the enterprise segment estimated by Fractal Analytics **{{ }}** and the total annual telecom spending of the companies in the Fractal Analytics database **{{ }}**. With the scaling, the analysis estimates the transaction will increase New Comcast's revenues from the entire enterprise business segment by around **{{ }}** over the next 10 years.

D. Step 4: Estimate expected cost savings to enterprise business customers

When Comcast or TWC already serve a large percentage of a customer's locations on-net, they have been able to compete for the customer's business and offer lower prices than the incumbent telco operator. As the transaction increases the number of such potential customers (as shown in the steps above), the transaction will enable more customers to benefit from the competition and lower prices from New Comcast.

The potential cost savings to customers is evidenced by the real-world experience of Comcast and TWC. For example, in two recent deals, Comcast was able to save two school districts **{{ }}** relative to their pre-Comcast prices.[16] For some school districts in Pennsylvania, Comcast has been able to increase bandwidths and offer savings of up to about **{{ }}**.[17] TWC has also been able to provide substantial savings to its business customers. For example, TWC was able to provide a cost savings of **{{**

}}.[20] As these examples involved products that were comparable in quality between Comcast/TWC and

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[16] *See* Comcast Business, *Comcast Connection Provides Endless Educational Opportunities for Students in Indiana School District*, http://business.comcast.com/docs/default-source/case-studies/casestudy-fort-wayne-v2.pdf?sfvrsn=0; Comcast Business, *Comcast Metro Ethernet Supports a National Leader in Digital Education*, http://business.comcast.com/docs/default-source/case-studies/casestudy-e-rate-illinois-school-district-214-v2.pdf?sfvrsn=0.

[17] Israel Decl. ¶ 159.

[18] AT&T Service Agreement, Appendix 1, Pricing Table. Prices are for a 24-month term.

[19] State of Ohio – Time Warner Cable Master Service Agreement, Service Attachment 1, 8/21/09, p. 3. Prices are for a 24-month term.

[20] State of Ohio – Time Warner Cable Master Service Agreement, Amendment 2 to Service Attachment 1, 3/10/14, pp. 1–2. Prices are for a 24-month term.

the incumbent telcos, the price difference represents a reasonable estimate of the cost savings for customers.

Based on Comcast's and TWC's experience, the analysis assumes that New Comcast can lower the price paid by enterprise customers by **{{ }}** percent relative to what the customers pay incumbent providers not facing competition from New Comcast. Consequently, the transaction is expected to save New Comcast customers approximately **{{ }}** over the next 10 years.

Moreover, as noted, New Comcast's increased ability to compete for enterprise customers will benefit not only New Comcast's customers but also businesses that remain with other providers, because those businesses will likely be able to receive lower prices from their providers due to the increased competition by New Comcast after the transaction. Comcast's and TWC's experience suggests that competition from Comcast and TWC typically leads to the incumbent telcos cutting their prices in response, which in turn results in price convergence between providers in the market. As a result, even in-play enterprise customers that choose not to purchase service from New Comcast would enjoy cost savings as a result of the transaction-related increase in competition.

The analysis estimates that the transaction will increase the in-play revenues associated with non-New Comcast customers by around **{{ }}** over the next 10 years. To the extent the transaction-related price effect for these customers is the same as that for New Comcast customers, the transaction is expected to save non-New Comcast customers in the database **{{ }}** over the next 10 years. Scaling up the estimate to the entire enterprise business segment, the transaction-related cost savings for non-New Comcast customers will be **{{ }}**.

Overall, combining the transaction-related cost savings of **{{ }}** to New Comcast customers and **{{ }}** to non-New Comcast customers, the transaction is expected to generate a total cost savings of **{{ }}** for the entire enterprise segment over 10 years. As noted above, not only are these substantial customer benefits conservative in that they focus solely on telecom spending in the enterprise market segment (and thus exclude potential additional cost savings in the cloud and managed service areas, as well as savings for regional, super-regional, and SMB businesses that the transaction will assuredly generate), but they also significantly overwhelm the harms alleged by certain opponents (whatever the merits of those claims) and thus alone satisfy the Commission's public interest standard for approval of the transaction.[21]

[21] Of course, business services is just one of the key areas where Applicants have demonstrated the transaction will produce significant public interest benefits. *See, e.g.*, Public Interest Statement at 20-125; Opposition and Response at 36-112; Reply to Responses at 12-23.

Please direct any questions to the undersigned.

Respectfully submitted,

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

EXHIBIT 1
[REDACTED]