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April 21, 2015

BY HAND

Marlene H. Dortch, Esq.
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, D.C. 20554

Re: *Applications of AT&T Inc. and DIRECTV for Consent to Assign or Transfer Control of Licenses and Authorizations, MB Docket No. 14-90*
WRITTEN EX PARTE PRESENTATION;
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Dear Ms. Dortch:

AT&T Inc. (“AT&T”) and DIRECTV (collectively, the “Applicants”) have demonstrated that the savings and synergies made possible by this transaction will fundamentally and permanently increase the incentives of the combined company to expand and enhance its broadband networks. Within its wireline footprint, for example, the transaction will allow AT&T to extend its ultra-fast, fiber-to-the-premises (“FTTP”) GigaPower broadband service with speeds of up to 1 Gbps to millions of additional customer locations.¹

Extending fiber to the customer’s premise has obvious and substantial advantages, including throughput speeds more than ten times higher than the fastest speeds possible with earlier generation fiber-to-the-node (“FTTN”) technology, but FTTP deployment is extraordinarily costly. A key limiting factor in FTTP deployment to date has been the challenging economics of AT&T’s under-scale video service, which means that broadband must

¹ See, e.g., Declaration of John T. Stankey, Group President and Chief Strategy Officer, AT&T Inc. ¶¶ 38, 39 (June 10, 2014) (“Stankey Decl.”); Declaration of Michael L. Katz ¶ 126 (June 11, 2014) (“Katz Decl.”); Public Interest Statement of AT&T and DIRECTV at 41-42 (filed June 11, 2014) (“Public Interest Statement”).

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bear **[BEGIN AT&T CONFIDENTIAL INFORMATION]** **[END AT&T CONFIDENTIAL INFORMATION]** of the burden of repaying any investment in FTTP GigaPower.

Fortunately, this transaction fundamentally changes the economics of FTTP deployment, **[BEGIN AT&T CONFIDENTIAL INFORMATION]**

[END AT&T CONFIDENTIAL INFORMATION]. Based on the expected content cost savings alone, AT&T concluded that it will have an economically viable business case to justify expanding FTTP GigaPower's reach to at least two million additional customer locations that would not meet investment thresholds absent the merger, and AT&T has committed to do exactly that within four years of the closing of the merger. Significantly, this "lift" in the economic viability of FTTP GigaPower service from the transaction is *in addition to* any further expansion justified by changes in the constantly evolving competitive landscape. Consequently, the transaction results in incremental deployment to millions of customer locations beyond whatever deployments may become justified by other factors in the future.²

The combination with DIRECTV also allows AT&T to offer customers within its wireline footprint the new, valuable choice of a fully integrated bundle of wireline broadband and DIRECTV video. For bundle customers that choose that option, there will be no need to

² See, e.g., Stankey Decl. ¶ 39; Katz Decl. ¶ 126; AT&T Information Request Response at 180-81 (filed Oct. 7, 2014). AT&T's FTTP plans included deployment to about **[BEGIN AT&T HIGHLY CONFIDENTIAL INFORMATION]** **[END AT&T HIGHLY CONFIDENTIAL INFORMATION]** customer locations prior to the proposed transaction. As a result of the cost savings and synergies associated with the merger, AT&T committed to deploy FTTP to an additional two million customer locations. See, e.g., Public Interest Statement at 9, 41; Stankey Decl. at ¶¶ 35, 39, 44; AT&T Information Request Response at 216-21. **[BEGIN AT&T HIGHLY CONFIDENTIAL INFORMATION]**

[END AT&T HIGHLY CONFIDENTIAL INFORMATION] AT&T Information Request Response at 217-18.

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reserve a fraction of the line capacity for U-verse video service, freeing up more of the line's capacity for broadband service. That is yet another benefit of the transaction. But the amount of capacity freed up by "offloading" the MVPD service to DIRECTV is not competitively material, and there should be no concern that this additional benefit will somehow reduce AT&T's incentives to deploy FTTP in favor of slower, earlier generation, technologies like FTTN.

The amount of capacity reserved for U-verse video on FTTN facilities is only about **[BEGIN AT&T HIGHLY CONFIDENTIAL INFORMATION]** **[END AT&T HIGHLY CONFIDENTIAL INFORMATION]**. Thus, at best, offloading video to satellite could allow a **[BEGIN AT&T HIGHLY CONFIDENTIAL INFORMATION]** **[END AT&T HIGHLY CONFIDENTIAL INFORMATION]** percent increase in the top speeds of FTTN-based broadband services that in most areas are capacity limited today to 45 Mbps (and nowhere exceed 75 Mbps).³ That simply does not move the needle relative to the much higher top speeds offered by AT&T's cable and other rivals, and it will have no impact on AT&T's strategic shift to focus on FTTP rather than FTTN. Thus, even if it made sense for AT&T marginally to increase the marketed speeds for FTTN as a result of offloading U-verse video over satellite, it would not materially impact the competitiveness of FTTN versus the higher speed offerings of AT&T's cable and other rivals.

Demand is growing for faster broadband speeds than AT&T, or anyone else for that matter, can deliver with FTTN, which cannot match the highest speed tiers being offered by cable and other rivals in the marketplace.⁴ From an engineering perspective, cable technology offers more bandwidth that can be allocated to faster download speeds. Comcast already offers

³ Stankey Decl. ¶ 38; Reply Declaration of Michael L. Katz ¶ 40 (Oct. 15, 2014) ("Katz Reply Decl."); AT&T Press Release, *New High-speed Internet Option Takes Fast-forward Leap Across U.S.* (Apr. 9, 2014), http://about.att.com/newsroom/att_iverse_high_speed_internet_75_expands_across_us.html.

⁴ See Katz Reply Decl. ¶¶ 39, 40. See also ATT-FCC-03457986 at 5 (showing that consumers are increasingly adopting higher speed broadband services and that offered speeds increase from cable and fiber).

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broadband download speeds over 100 Mbps in *all* of its markets,⁵ and other broadband providers are in the process of widely deploying much higher speed offerings. As the attached chart illustrates, Comcast is rolling out a 2 Gbps product, and Google, Cox, Bright House, and CenturyLink already have 1 Gbps service available. Even the relative speed laggards among AT&T's rivals already offer services of 200 Mbps or higher. Indeed, in some areas, *multiple* providers are competing to provide broadband service at these high speeds.⁶ AT&T has fewer than **[BEGIN AT&T HIGHLY CONFIDENTIAL INFORMATION]** **[END AT&T HIGHLY CONFIDENTIAL INFORMATION]** customers with a product that meets the Commission's current 25 Mbps definition of broadband.⁷ To put that number in perspective, Comcast reports that 93 percent of its customers – over 20 million in all – have 25 Mbps or faster service.⁸

These harsh competitive realities were the principal driver of AT&T's 2014 decision to accelerate its long-term upgrade strategy to extend its fiber deployment all the way to the premise, particularly in those markets where competitive realities require it.⁹ **[BEGIN AT&T**

⁵ Mark A. Israel, *Economic Analysis of the Effect of the Comcast-TWC Transaction on Broadband: Reply to Commenters*, ¶ 30 n.25 (Sept. 22, 2014), attached as Exhibit 1 to *Opposition to Petitions To Deny and Response to Comments*, MB Docket No. 14-57 (Sep. 23, 2014) (“Comcast offers a 105 Mbps downstream tier in all of its markets”).

⁶ *See, e.g.*, Stephen Hardy, *Comcast One Ups Google, AT&T with 2-Gbps Broadband in Atlanta*, Lightwave, April 2, 2015; Sean Buckley, *AT&T Challenges Google Fiber, Consolidated with 1 Gbps Service in the Kansas City Area*, Fierce Telecom, Feb. 16, 2015; Brian Fung, *This Is What a Competitive Broadband Market Looks Like*, Washington Post, Feb. 11, 2014 (AT&T, Google and Grande Communications are in “an arms race” to provide 1 Gbps service in Austin).

⁷ *See* AT&T Information Request Response at Ex. 5.b.1.

⁸ Letter from Francis M. Buono, Willkie Farr & Gallagher LLP, Counsel for Comcast Corp., to Marlene H. Dortch, Secretary, FCC, MB Dkt No. 14-57, at 2 (Apr. 17, 2015); Comcast Corp. 2014 Annual Report (10-K) at 3 (reporting that Comcast serves 22 million broadband subscribers).

⁹ *See, e.g.*, ATT-FCC-03457986 at 16 **[BEGIN AT&T HIGHLY CONFIDENTIAL INFORMATION]**

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HIGHLY CONFIDENTIAL INFORMATION]

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FTTP facilitates a better, more compelling set of products, and AT&T expects FTTP to have a longer economic lifespan than FTTN and other prior wireline network technologies.¹¹

Accordingly, as described in the record, AT&T concluded that it needs to invest in FTTP, where it is economically feasible to do so, to meet customer demand and compete with Cable DOCSIS 3.1 and Google Fiber.¹²

While the Commission's recent Title II order has added a level of uncertainty to the equation, this transaction does not in any way call AT&T's decision into question. To the contrary, the transaction furthers AT&T's FTTP strategy by making it possible to extend fiber to millions of additional customer locations. That is why AT&T has made it clear that it continues to stand behind each of the broadband commitments made at the time of the announcement of

Footnote continued from previous page

[END AT&T HIGHLY CONFIDENTIAL INFORMATION]; Katz Decl. ¶ 126, n. 219; Katz Reply Decl. ¶ 39.

¹⁰ Katz Decl. ¶ 126, n. 219. **[BEGIN AT&T HIGHLY CONFIDENTIAL INFORMATION]**

[END AT&T HIGHLY CONFIDENTIAL INFORMATION] *C.f.* Letter from Robert W. Quinn, Jr., Sr. VP-Federal Regulatory and Chief Privacy Officer, AT&T Services, Inc., to Marlene H. Dortch, Esq., Secretary, FCC, MB Dkt No. 14-90, at 1 and chart, n. 2 (Nov. 25, 2014); Katz Reply Decl. ¶ 39; Katz Decl. ¶ 126, n. 219. **[BEGIN AT&T HIGHLY CONFIDENTIAL INFORMATION]**

[END AT&T HIGHLY CONFIDENTIAL INFORMATION]

¹¹ AT&T Information Request Response at 161-62.

¹² Katz Reply Decl. ¶ 39, n. 77. *See also, e.g.*, Declaration of Lori M. Lee, Senior Executive Vice President - Home Solutions, AT&T Inc. ¶¶ 24, 31-35 (June 10, 2014).

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this transaction, even with the added uncertainty of the Commission's recent Title II order.¹³
AT&T has no plans to reevaluate FTTN for broader deployment post-merger.

Respectfully submitted,

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¹³ Letter from Robert W. Quinn, Jr., Sr. VP-Federal Regulatory and Chief Privacy Officer, AT&T Services, Inc., to Marlene H. Dortch, Secretary, FCC, MB Docket 14-90 (Nov. 25, 2014).

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Maximum Broadband Speeds

| Provider | Maximum Speed | Notes |
|-----------------|----------------------|--|
| Comcast | 2 Gbps | 2 Gbps in Atlanta by May 2015; 505 Mbps already available in Comcast South Region, including Atlanta, Nashville, Jacksonville, and South FL |
| AT&T | 1 Gbps | 1 Gbps to be deployed in up to 100 cities; 75 Mbps already available in 90 cities across 60 markets |
| Bright House | 1 Gbps | 1 Gbps already available in parts of FL and 300 Mbps in other parts of FL |
| CenturyLink | 1 Gbps | 1 Gbps already available in Denver, Las Vegas, Minneapolis, Omaha, Orlando, Portland, Salt Lake City, Seattle, and Columbia and Jefferson City, MO |
| Cox | 1 Gbps | 1 Gbps in all markets by 2016; already available in parts of AZ and CA |
| Google | 1 Gbps | 1 Gbps already available in Austin, Kansas City, and Provo; coming in 2015 to Salt Lake City, Atlanta, Charlotte, Nashville, and Raleigh-Durham |
| Suddenlink | 1 Gbps | 1 Gbps available to "virtually all" customers by 2016 |
| Verizon | 500 Mbps | 500 Mbps already available in New York City |
| Mediacom | 305 Mbps | 305 Mbps already available in Cedar Rapids, IA and 150 Mbps already deployed across all markets |
| Time Warner | 300 Mbps | 300 Mbps or 200 Mbps service already available in New York City, Los Angeles, San Antonio, Austin, and NJ; to be deployed in Charlotte, NC Research Triangle and Kansas City |

* Information in this chart was obtained from providers' websites, press releases and media reports.