

REDACTED – FOR PUBLIC INSPECTION

December 4, 2015

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VIA HAND DELIVERY

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: In the Matter of Applications of Charter Communications, Inc., Time Warner Cable Inc., and Advance/Newhouse Partnership for Consent to Transfer Control of Licenses and Authorizations, MB Dkt. No. 15-149

Dear Ms. Dortch:

Attached please find additional information regarding the docket referenced above.

This document contains proprietary and non-public information, which is being submitted on a Highly Confidential basis under the Protective Order in effect in this proceeding. Consistent with the instructions in the Protective Order, the Highly Confidential version is being hand-filed here, and copies are being provided to the Media Bureau.

Please contact me if you have any questions regarding these matters.

Sincerely,

/s/ John L. Flynn

John L. Flynn

Attachment (Redacted)

cc: Vanessa Lemmé

In their Public Interest Statement, Charter Communications, Inc. (“Charter”), Time Warner Cable Inc. (“TWC”), and Bright House Networks LLC’s (“BHN”) parent, Advance/Newhouse Partnership (collectively, the “Applicants”), explained the many public interest benefits that Charter’s proposed mergers with TWC and BHN (the “Transaction”) will deliver.¹ This letter provides further detail regarding the increase in commercial competition, the transition of all of TWC and BHN to all-digital, the ability to offer a mobile service, and the deployment of Spectrum Guide and Worldbox.²

1. Increased Commercial Competition

The Transaction will bring public interest benefits by providing increased competition in the small business (“SMB”) and enterprise business markets. In particular, New Charter will be able to compete for multi-site business customers that would not be economical for any of the three companies to serve individually, providing the new company the ability to offer its highly competitive pricing and terms to these businesses.³ The Applicants are typically unable to offer

¹ *Application of Charter Communications, Inc., Time Warner Cable Inc., and Advance/Newhouse Partnership for Consent to the Transfer of Control of Licenses and Authorizations*, Public Interest Statement, MB Docket No. 15-149 (July 25, 2015) (“Public Interest Statement”).

² Although this letter provides additional detail regarding certain of the benefits offered by the Transaction, there are further benefits—identified in the Public Interest Statement—that the parties do not discuss here. Those additional, merger-specific benefits include (1) committing to build out one million line extensions of networks to homes in the combined company’s franchise areas; (2) committing to invest at least \$2.5 billion in the build-out of networks into commercial areas within the combined company’s footprint; (3) committing to deploy 300,000 new WiFi access points; (4) committing for three years to comply with the Commission’s open Internet rules prohibiting blocking, throttling, and engaging in paid prioritization, irrespective of the outcome of the pending judicial appeal; (5) committing for three years not to charge consumers additional fees to use specific third-party Internet applications, and not to impose data caps; (6) committing for three years to engage in reasonable and non-discriminatory interconnection and to submit any interconnection disputes to the FCC for resolution on a case-by-case basis; (7) increasing the geographic reach and density of the combined company’s presence in multiple regions; (8) lowering the per-customer fixed costs of investments, which facilitates the deployment of new technology and advanced infrastructure; (9) increasing competition for advertising services; and (10) building on Charter’s, TWC’s, and BHN’s commitments to good corporate citizenship, including by expanding TWC’s commitment to diversity and BHN’s initiatives to expand broadband adoption and to close the digital divide. *See generally* Public Interest Statement; *see also* Response of Charter Communications, Inc. to Information and Data Requests Dated Sept. 21, 2015, at 336-38 (Oct. 13, 2015) (“Charter RFI Responses”).

³ *See* Charter RFI Responses at 326-28; *see also* Charter Third Supplemental RFI Responses at 32-35.

competitively priced solutions to multi-site businesses when they cannot directly serve at least [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% of a given business customer's locations.⁴ As a result of the Transaction, however, New Charter will be in a position to serve at least [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% of a given customer's locations for an additional approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] unique firms at an additional approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] locations.⁵

These additional serviceable businesses span a wide range of industries, sizes, and locations. Charter's internal data indicate that approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% of these businesses are in the professional services industry; approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% are in the retail industry; and approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% are manufacturing businesses.⁶ Among the multi-site businesses that New

⁴ See, e.g., Charter Third Supplemental RFI Responses at 32-36.

⁵ These numbers vary somewhat from the data in Exhibit 94-1 accompanying Charter's response to RFI 94 because the information was pulled in both cases from a fluid data set that is periodically updated.

⁶ Additional industries include, among others, finance/insurance/real estate ([BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]%), healthcare ([BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]%), hospitality ([BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]%), government ([BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY

Charter will be able to serve, approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% employ between 11 and 50 people, approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% employ between 51 and 100 people, and approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% employ between 101 and 500 people. These businesses are spread throughout the country, and many of the newly serviceable sites are located in small- to medium-sized cities. New Charter's expanded commercial service territory will therefore benefit businesses by increasing competition in those underserved regions where cable has not provided significant competition to date.

This competition will provide immediate benefits to those companies that previously no Applicant had the scale to economically serve. The sites that New Charter will be able to serve as a result of the Transaction are geographically diverse. Approximately half of the sites are located in the followings DMAs: [BEGIN HIGHLY CONFIDENTIAL INFORMATION]

[END HIGHLY CONFIDENTIAL INFORMATION] In total, businesses in over [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] DMAs will benefit from New Charter's greater commercial service territory.

CONFIDENTIAL INFORMATION]%), and education ([BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]%).

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As shown in the chart below, New Charter’s SMB products will lead its competitors in price, speed, and ease of switching, providing an Internet and voice bundle with no contractual commitment and with no separate charges for phone taxes and fees.⁷

Table 1: SMB Promotional Pricing Comparison

	Charter Spectrum Business	CenturyLink Business	AT&T	Verizon
Internet	60x4 Mbps	10x2 Mbps	6x1 Mbps	50x50 Mbps
Voice	Unlimited	Unlimited	Unlimited	Unlimited
Internet + Voice Pricing	\$69.98	\$83.99	\$100.00	\$129.99 + Modem
Contract Period	No Contract Period	2 Year Contract Required	Contract Required	2 Year Contract Required
Taxes and Fees	No Separate Phone Taxes and Fees	Taxes and Fees Apply	Taxes and Fees Apply	Taxes and Fees Apply

The increased competition New Charter brings will also provide immediate benefits to the enterprise market. Charter currently offers low-cost fiber service through its **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** **[END HIGHLY CONFIDENTIAL INFORMATION]** promotion at a price significantly below the average price offered by Charter’s competitors (*see* Table 2 below)—**[BEGIN HIGHLY CONFIDENTIAL INFORMATION]**

⁷ See Charter RFI Responses at 144-45, 152-53, 230-34. New Charter’s SMB pricing and terms will also be favorable compared to current TWC, which offers Internet at 10x1 Mbps and unlimited voice for \$99.98 in most markets, with a two-year contract required and applicable taxes and fees.

[END HIGHLY CONFIDENTIAL

INFORMATION]⁸ By adding TWC’s and BHN’s networks to Charter’s, New Charter will be able to offer this type of disruptive pricing to an additional [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] mid-size and enterprise-size businesses across the New Charter footprint.⁹

⁸ [BEGIN HIGHLY CONFIDENTIAL INFORMATION]

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⁹ Using the relative market sizes of the three Applicants as a proxy, we estimate that TWC’s footprint contains an additional approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] businesses and that BHN’s footprint contains an additional approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]—for a total of approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] businesses outside of Charter’s current footprint that would be eligible to take advantage of [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] pricing. Based on data from SNL Kagan, TWC and BHN are 2.4 and 0.4 times Charter’s size respectively in terms of number of subscribers. *See* Declaration of Dr. Fiona Scott Morton, Theodore Nierenberg Professor of Economics at the Yale School of Management and Senior Consultant at Charles River Associates, Table 3 (June 24, 2015) (“Scott Morton Decl.”). [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]

Table 2: Enterprise Fiber Internet Promotional Pricing Comparison

[BEGIN HIGHLY CONFIDENTIAL INFORMATION]

[END HIGHLY CONFIDENTIAL INFORMATION]

New Charter's promotional pricing will lead to significant customer cost savings potential for each business customer. Compared to average competitor pricing at the tiers providing up to 100 Mbps and up to 1 Gbps, New Charter's promotional pricing would save each of these businesses \$**[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** **[END HIGHLY CONFIDENTIAL INFORMATION]** and \$**[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** **[END HIGHLY CONFIDENTIAL INFORMATION]** per month, respectively. And for customers who take advantage of bundled pricing, the monthly savings would increase to \$**[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** **[END HIGHLY CONFIDENTIAL INFORMATION]** and \$**[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** **[END HIGHLY CONFIDENTIAL INFORMATION]** per month, respectively.

¹⁰ These estimates are based on data collected by Charter enterprise that Charter relies on to develop competitive pricing.

¹¹ The sample group average is a weighted average of the market testing data described in footnote 10, *supra*.

These savings, in turn, will add up to hundreds of millions of dollars per year across the New Charter footprint. Assuming that [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% of eligible businesses take advantage of New Charter’s lower [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] rates—which is a reasonable target based on Charter’s experience—and assuming, again conservatively, that those businesses were to each sign up for an unbundled plan providing up to 100 Mbps, the availability of [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] pricing would result in a total monthly savings to newly eligible [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] customers of approximately \$[BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]—or \$[BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] per year.¹²

2. All-Digital and Increased Broadband Speeds

Just as Charter took its network all-digital and deployed fully capable two-way set top boxes (“STBs”), New Charter will do the same for the TWC and BHN networks, bringing significant consumer benefits.¹³ The table below shows New Charter’s all-digital rollout plans, demonstrating that [BEGIN HIGHLY CONFIDENTIAL INFORMATION]

[END HIGHLY CONFIDENTIAL INFORMATION] of TWC’s and BHN’s currently

¹² [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]

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¹³ Public Interest Statement at 3, 25; Charter RFI Responses at 10, 138; Charter Third Supplemental RFI Responses at 30-31.

non-digital customers will be transitioned within fifteen months, and the remaining customers will be transitioned within thirty months.

Table 3: All-Digital Timeline and Investment

[BEGIN HIGHLY CONFIDENTIAL INFORMATION]

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Absent the Transaction, this all-digital transition would not occur nearly as quickly in the TWC and BHN footprints. TWC and BHN have gone all-digital in a little less than [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% of their combined passings, and, based on their pre-Transaction plans, TWC intends to transition to all-digital in only [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% of its network.¹⁵ BHN has transitioned to all-digital in only [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]

[END HIGHLY CONFIDENTIAL INFORMATION]¹⁶ The Applicants

¹⁴ These estimates are based on an approximate cost of \$[BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] per customer, using Charter “All-Digital Spend” as publicly reported, as well as CMTS for speed upgrades in all-digital markets, on a per residential video customer basis applied to remaining TWC and BHN customers. “All-Digital Spend” includes (i) boxes; (ii) installation costs; (iii) shipping kits and logistics; (iv) all incremental labor related to all-digital installation; (v) temporary retail stores; and (vi) rescue trouble calls after an all-digital event at a household.

¹⁵ See Ex Parte Letter from Matthew A. Brill to Secretary Dortch at 2 (Nov. 19, 2015).

¹⁶ [BEGIN HIGHLY CONFIDENTIAL INFORMATION]

estimate that, at the end of 2015, TWC and BHN will have at least [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] video customers (at least [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] TWC video customers and approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] BHN video customers) in markets that are not all-digital. Approximately [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] of these customers are not specifically scheduled to be transitioned to all digital under TWC and BHN’s current plans.¹⁷

Digitization, and the additional available spectrum it creates, brings many benefits to video consumers, including a much clearer, higher quality picture, hundreds more HD channels, and thousands more VOD options. In addition, unlike TWC and BHN, which have used functionally limited DTA devices on more than [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION]% of converted TV outlets as they digitized, New Charter will use fully functional, two-way boxes, which provide access to additional programming networks, video on demand, the ability to pause or record programming, and, as discussed *infra*, our Spectrum Guide, which enables every television to have the functionality of a “smart” TV.

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¹⁷ [BEGIN HIGHLY CONFIDENTIAL INFORMATION]
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Taking these customers all-digital will also allow New Charter to repurpose the bandwidth used for analog video services to the DOCSIS platform, thus enabling a minimum broadband speed of 60 Mbps throughout New Charter’s footprint. New Charter will begin to offer a minimum speed of 60 Mbps in those current TWC and BHN markets that are all digital at Transaction close within twelve months of close and in the remaining TWC and BHN markets as they are converted to all-digital.¹⁸

As numerous economic studies show, such a broadband speed increase will bring significant public interest benefits. For example, Mark Dutz, Jonathan Orszag, and Robert Willig conclude that the benefits of an increase in broadband speed from 5 Mbps to 50 Mbps are approximately \$5.8 billion per year for existing home broadband users.¹⁹ Similarly, Ibrahim Kholilul Rohman and Erik Bohlin, found that doubling broadband speeds is associated with an increase in GDP growth of 0.3%.²⁰

A more recent academic paper by Aviv Nevo, John L. Turner, and Jonathan Williams found that consumer surplus increased by \$22 per subscriber per month when broadband speeds increased from 25 to 50 Mbps and prices were held constant.²¹ Applying the findings from the Nevo, Turner, and Williams paper with respect to these subscribers, and assuming that speed increases for TWC and BHN customers would be from 25 Mbps to 50 Mbps, not the [BEGIN

HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL

INFORMATION] Mbps to 60 Mbps that will be the case in most instances, the Applicants very

¹⁸ See Public Interest Statement at 19.

¹⁹ See Mark Dutz, Jonathan Orszag & Robert Willig, *The Substantial Consumer Benefits of Broadband Connectivity for U.S. Households*, Compass Lexecon Working Paper (Commissioned by the Internet Innovation Alliance, 2009).

²⁰ See Ibrahim Kholilul Rohman & Erik Bohlin, *Does broadband speed really matter for driving economic growth? Investigating OECD Countries*, 2 Int’l J. Mgmt. & Network Econ. 335 (2012).

²¹ Aviv Nevo, John L. Turner, and Jonathan W. Williams, “Usage-Based Pricing and Demand for Residential Broadband,” at Table 7, Working Paper, October 2015, forthcoming in *Econometrica*.

conservatively estimate that the Transaction will provide total customers benefits of approximately \$1.03 billion per year as to current TWC customers²² and approximately \$117.5 million per year as to current BHN customers,²³ for a total of roughly \$1.15 billion per year.

3. Ability To Offer A Mobile Service

New Charter's larger scale will justify increased investments in wireless services to an extent that has not been reasonable for any of the three companies to accomplish on its own. The Transaction will therefore enhance competition in the broadband marketplace by enabling New Charter to be a new entrant by offering mobile products through increased WiFi deployment, the deployment of licensed spectrum or a mobile virtual network operator ("MVNO") arrangement—and likely through some combination of these. **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]**

[END HIGHLY CONFIDENTIAL INFORMATION],²⁴

²² This calculation assumes that TWC and BHN customers currently receiving speeds of up to 15, 20, and 30 Mbps speeds would each receive a benefit of approximately \$22 for the increase from their current speed to speeds of up to 60 Mbps. This assumption likely underestimates the total value, **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]**

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²³ This estimate assumes current BHN customers purchasing 15 Mbps plans will benefit by approximately \$22 per month, but it does not include benefits that will accrue to customers who are enrolled in plans at 20 Mbps or 30 Mbps, **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]**

[END HIGHLY CONFIDENTIAL INFORMATION], meaning that using the Nevo, *et al.* estimate would overstate the benefit for these customers. Because Applicants made the conservative assumption that such customers would receive no benefit from the speed increase in calculating the relevant figure, actual benefits will likely be greater than estimated.

²⁴ For example, due to Charter's current low concentration of coverage, it is efficient to purchase TV mass advertising in only one of the top 25 DMAs (St. Louis) and, in total, only in approximately 50% of Charter's footprint. See Public Interest Statement at 39. **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]**

New Charter’s footprint will be significantly more clustered;²⁵ it will have a larger base to spread the large fixed costs of purchasing, deploying, and operating a wireless network; and its increased scale will make roaming on third-party wireless networks more cost-effective. These factors make offering a mobile product a good investment that New Charter plans to pursue. The Commission has long recognized the benefit of increased competition in the wireless arena.²⁶ As the Commission explained in its 2014 Wireless Competition Report, “[c]ompetition in mobile wireless services is a cornerstone of the Commission’s mission and essential for driving innovation, investment, and consumer benefits.”²⁷

4. Spectrum Guide

As the Applicants have explained, the Transaction will enable the Spectrum Guide developed by Charter to be deployed throughout the New Charter footprint, bringing a range of consumer benefits.²⁸ Spectrum Guide is a sophisticated cloud-based user interface that can be deployed on two-way STBs, including legacy STBs that are incompatible with sophisticated STB-based user interfaces like Comcast’s X1 platform. Among other things, Spectrum Guide is

[END HIGHLY CONFIDENTIAL INFORMATION]

²⁵ Again using DMA advertising as a proxy, New Charter’s increased concentration will enable it to efficiently purchase TV mass advertising in nine of the top 25 DMAs and, in total, to reach approximately 90% of its footprint. See Public Interest Statement at 39.

²⁶ See, e.g., *Broadcast Incentive Auction Scheduled to Begin on Mar. 29, 2016 Procedures for Competitive Bidding in Auction 1000, Including Initial Clearing Target Determination, Qualifying to Bid, & Bidding in Auctions 1001 (Reverse) & 1002 (Forward)*, Public Notice, 30 FCC Rcd 8975, 9065 ¶ 176 (2015) (justifying bidding policy on the ground that it will facilitate “competition and choice in the wireless marketplace”); *Sprint Nextel Corp. & Clearwire Corp.*, Memorandum Opinion and Order, 23 FCC Rcd 17,570, 17,572, 17,586, 17,618-19 ¶¶ 3, 36, 123 (2008) (concluding that merger of Sprint-Nextel and Clearwire would “result in major public interest benefits by facilitating the provision of a nationwide WiMAX-based network that will lead to increased competition, greater consumer choice, and new services”).

²⁷ *Implementation of Section 6002(B) of the Omnibus Budget Reconciliation Act of 1993, Annual Report and Analysis of Competitive Market Conditions With Respect to Mobile Wireless, Including Commercial Services*, Seventeenth Report, 29 FCC Rcd 15,311, 15,314 ¶ 1 (2014).

²⁸ See, e.g., Charter RFI Responses at 14-15.

capable of seamlessly integrating cable video content with OVD content, and customers will be able to access Spectrum Guide through either New Charter's or third-party equipment, such as Roku devices.²⁹

Charter developed Spectrum Guide in recognition that a state of the art, user-friendly interface has become necessary to attract and retain customers in the highly competitive video marketplace, in which programming line-ups are largely similar from one provider to another. Absent the Transaction, **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]**

[END HIGHLY CONFIDENTIAL INFORMATION]

After the Transaction is closed, however, all New Charter customers will gain access to Spectrum Guide according to the following schedule:

²⁹ See Public Interest Statement at 25; Charter RFI Responses at 137.

³⁰ **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]**

[END HIGHLY CONFIDENTIAL INFORMATION] See TWC Oct. 12, 2015 RFI Responses at 12-13, 71-72.

Table 4: Spectrum Guide Deployment Timeline and Investment

[BEGIN HIGHLY CONFIDENTIAL INFORMATION]

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Because Spectrum Guide is capable of providing access to both cable video and OVD content on existing equipment, Spectrum Guide’s integration across New Charter’s footprint will serve, in effect, to convert customers’ traditional television sets into “smart TVs.” On average, smart TVs are typically around \$200 more expensive to consumers than televisions with otherwise similar capabilities.³² Assuming that approximately 63% of TWC’s and BHN’s customers do not have a smart TV in their home,³³ and that customers have, on average, 2.4

³¹ The investment per passing cost is estimated based on the investments that Charter already made to develop Spectrum Guide and the necessary network investments to deploy Spectrum Guide plus the anticipated investments to complete the deployment of Spectrum Guide, divided by the number of extant Charter passings.

³² For example, *see* CES 2015: Smart TV or media streamer – which is best for price sensitive US shoppers? (Jan. 8, 2015, <http://www.brandview.com/en/ces-2015-smart-tv-or-media-streamer-which-is-best-for-price-sensitive-us-shoppers/> which estimates the average non-smart 55 inch TV is \$196 cheaper than the smart TV equivalent.

³³ *See* “Smart TV penetration grows, does usage follows” at <http://www.nscreenmedia.com/smart-tv-penetration-grows-usage-follow/>, which cites an estimate by Digital TV Research of 37% of connected TVs in 2014 being Smart TVs.

televisions in their homes, the introduction of Spectrum Guide would deliver an additional value to consumers of approximately \$3.84 billion.³⁴

A conservative alternative estimate of consumer benefit from Spectrum Guide can be derived from what consumers pay for other products that provide similar functions. Google's Chromecast, for instance—which has fewer capabilities than Spectrum Guide and is not fully integrated with cable video—is marketed at \$35. Amortizing Chromecast's cost over three years (excluding sales tax) suggests that many consumers value the ability to integrate OVD content alongside traditional MVPD content at least approximately \$1 per month per television. It is likely that New Charter customers will benefit by at least that amount on average,³⁵ especially considering the popularity of streaming video services and customers' desire to access multiple sources of content.³⁶ Using \$1 per month per television as a rough, conservative proxy, deployment of Spectrum Guide could yield roughly \$[**BEGIN HIGHLY CONFIDENTIAL INFORMATION** **END HIGHLY CONFIDENTIAL INFORMATION**] annually, as shown in the table below.

³⁴ \$200 x 12.7 million additional video customers x 63% x 2.4 televisions = \$3.84 billion.

³⁵ The Applicants have calculated this proxy for consumer benefit using Chromecast, given its relatively low price, in order to provide a conservative estimate. Yet, many consumers purchase significantly higher-priced equipment, like AppleTV and Roku, for the same purpose, suggesting that many customers may value Spectrum Guide's functionality at significantly more than \$1 per month.

³⁶ [**BEGIN HIGHLY CONFIDENTIAL INFORMATION**]

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Table 5: Spectrum Guide Value to Subscribers

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5. Worldbox

Yet another benefit of the Transaction is the deployment of “Worldbox,” a state-of-the-art STB, across the three companies’ footprints. That deployment will occur according to the following schedule:

Table 6: Worldbox Deployment Schedule

[BEGIN HIGHLY CONFIDENTIAL INFORMATION]

[END HIGHLY CONFIDENTIAL INFORMATION]

The deployment of Worldbox will benefit consumers because it is capable of providing advanced functionality far into the future. Worldbox has the ability to process both IP and QAM signals and features a DOCSIS 3.0 modem, allowing it to display Internet video in addition to

traditional cable video. It also has a powered USB port that, with the modem, can be used to provide WiFi. Worldbox will also be capable of handling 4k video content, which—like Worldbox’s other features—mitigates the risk that it will need to be replaced in customers’ homes any time soon.

In addition to these functional improvements, the deployment of Worldbox will benefit consumers because Worldbox is less expensive on a per-box basis than TWC’s and BHN’s STBs, meaning that New Charter’s marginal STB cost will be lower than for current TWC and BHN.³⁷ TWC and BHN now pay an average of \$[BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] plus \$[BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] in CableCARD fees for each high-definition STB, while Charter pays an average of \$[BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] plus \$[BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] in platform fees for a Worldbox STB, which does not require CableCARD because it uses downloadable security.³⁸ Worldbox is therefore less expensive overall than TWC’s and BHN’s STBs by \$[BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] per box.

The Applicants will realize this marginal cost savings with respect to [BEGIN HIGHLY CONFIDENTIAL INFORMATION]

³⁷ See Statement of Dr. Fiona Scott Morton re the Merger of Charter, TWC, and BHN ¶ 216 (Nov. 2, 2015).

³⁸ See *id.*

[END HIGHLY CONFIDENTIAL INFORMATION].³⁹

TWC and BHN video subscribers in all-digital areas use an average of [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] STBs per household, while TWC and BHN subscribers in markets that are not all digital use ([BEGIN HIGHLY CONFIDENTIAL INFORMATION]

[END HIGHLY

CONFIDENTIAL INFORMATION]), resulting in the expected deployment of [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] Worldboxes per TWC household and [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] Worldboxes per BHN household as New Charter takes areas all-digital. The Transaction will therefore result in a total cost savings of approximately \$[BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] Based on the Applicants' previously submitted economic analysis, the Applicants estimate that 50% to 60% of these cost savings will be passed on to customers,⁴¹ resulting in a merger specific benefit of between \$[BEGIN HIGHLY CONFIDENTIAL INFORMATION] [END HIGHLY CONFIDENTIAL INFORMATION] and

³⁹ See *supra*, p. 8.

⁴⁰ [BEGIN HIGHLY CONFIDENTIAL INFORMATION]

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⁴¹ See Charter-TWC-BHN: Efficiencies Analysis, Reply Declaration of Michael L. Katz ¶ 55 (Nov. 2, 2015) (“Katz Decl.”).

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⁴² In addition, customers will benefit from New Charter’s replacement of existing DTAs in the TWC and BHN markets that have already upgraded to all-digital. (BEGIN HIGHLY CONFIDENTIAL INFORMATION)

(END HIGHLY CONFIDENTIAL INFORMATION) Assuming (BEGIN HIGHLY CONFIDENTIAL INFORMATION) (END HIGHLY CONFIDENTIAL INFORMATION) televisions per household, and based on the average number of STBs deployed per subscriber in areas that have been upgraded to all digital (BEGIN HIGHLY CONFIDENTIAL INFORMATION)

(END HIGHLY CONFIDENTIAL INFORMATION), the Applicants estimate that there roughly (BEGIN HIGHLY CONFIDENTIAL INFORMATION) (END HIGHLY CONFIDENTIAL INFORMATION) million DTAs deployed in TWC’s and BHN’s currently all-digital markets. Accordingly, the Applicants estimate that Worldbox will deliver approximately \$(BEGIN HIGHLY CONFIDENTIAL INFORMATION) (END HIGHLY CONFIDENTIAL INFORMATION) in additional cost savings from DTA replacement, meaning cost savings for consumers of between \$(BEGIN HIGHLY CONFIDENTIAL INFORMATION) (END HIGHLY CONFIDENTIAL INFORMATION) and \$(BEGIN HIGHLY CONFIDENTIAL INFORMATION) (END HIGHLY CONFIDENTIAL INFORMATION)

(END HIGHLY CONFIDENTIAL INFORMATION) (END HIGHLY CONFIDENTIAL INFORMATION) These benefits are in addition to significantly improved functionality that customers will experience with Worldbox compared to DTAs.