KATHLEEN M.H. WALLMAN
9332 RAMEY LANE
GREAT FALLS, VIRGINIA 22066

September 30, 2003

VIA ELECTRONIC FILING

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12$^{th}$ Street, S.W.
Washington, D.C. 20445

Regarding: MB Docket 03-124

Dear Ms. Dortch:

On September 30, 2003, I submitted the attached letter to Kenneth Ferree and Barbara Esbin of the Media Bureau on behalf of Pegasus Communications.

Very truly yours,

//signed//

Kathleen M.H. Wallman

KATHLEEN M.H. WALLMAN
9332 RAMEY LANE
GREAT FALLS, VIRGINIA 22066

September 30, 2003

VIA EMAIL

W. Kenneth Ferree, Esq.
Chief, Media Bureau

Barbara Esbin, Esq.
Associate Chief, Media Bureau

Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20445

Dear Mr. Ferree and Ms. Esbin:

I write on behalf of Pegasus Communications to expand on concerns outlined in our May 28, 2003 meeting regarding the proposed acquisition by FOX Entertainment Group (FOX) of a controlling interest in DIRECTV and to suggest remedies that may serve to mitigate these concerns.

FOX is proposing to acquire an approximate 34% ownership interest in and control of DIRECTV, the third largest multi-channel video provider (MVPD) in the United States. FOX is the owner of the FOX Television Network, the FOX owned and operated TV stations, the FOX studios and numerous cable programming networks. FOX together with Disney, Viacom, Time Warner and General Electric own broadcast and cable programming that generate substantially all of the viewing in homes subscribing to cable and satellite in the US. Programming constitutes the single largest cost element for an MVPD. Over the past decade, the cost of programming has been increasing at double-digit rates and is a primary influence on the increasing cost to consumers of cable and satellite basic programming packages. MVPD's routinely identify the increasing cost of programming as their number one problem. The acquisition by FOX of control over the nation's third largest MVPD raises public interest issues regarding vertical pricing between FOX and DIRECTV and the influence such pricing may have on the future cost of FOX programming for MVPD's not affiliated with FOX.

We believe that the principal risk in FOX's acquisition of a controlling interest in DIRECTV is that FOX will use its control to cause DIRECTV to agree to accept higher rates for FOX programming than DIRECTV would were it independent of FOX and that FOX will use the rates charged DIRECTV as a reference point for its contracts with non-affiliates MVPD's. DIRECTV's competitors will then be faced with the choice to accept high and non-competitive pricing on their FOX programming or reject such pricing and be forced to compete against DIRECTV without access to FOX programming. While

DIRECTV (which will only be 34% owned by FOX) would clearly suffer higher programming costs if FOX were to pursue such a strategy, FOX itself would benefit both from the higher programming charges that it would collect from DIRECTV as well as by higher programming charges successfully passed on to other, non-affiliated MVPD's. A limited commitment by FOX to offer its programming to non-affiliated MVPD's on a non-exclusive and non-discriminatory basis will not protect against the risk that FOX will seek to impose high and increasing programming costs on DIRECTV through its exercise of control, make such high costs the standard for its contracts with other, non-affiliated MVPD's and threaten non-affiliated MVPD's with increased competition from DIRECTV if they do not accept such higher costs.

Pegasus believes that the FCC should impose conditions on FOX's acquisition of control of DIRECTV that ensure that FOX is prevented from pursuing a strategy such as we have outlined above. Specifically, we suggest that FCC approval be conditioned upon:

(1) A requirement that any contract (and any contract modification) between FOX and DIRECTV be approved by a majority of the independent directors of DIRECTV and its parent, Hughes Electronics Corporation;

(2) A requirement that ALL contracts between FOX and DIRECTV (as well as all exhibits, side agreements and ancillary documents) be filed with the FCC and be made public;

(3) A requirement that the economic terms of any contract between FOX and DIRECTV be required to be set to the average of those charged to FOX's three largest, non-affiliated MVPD's;

(4) A requirement that the CEO and directors of FOX and the CEO and directors of DIRECTV and of its parent, Hughes Electronics Corporation, certify to the FCC upon execution of any contract between FOX and DIRECTV and annually thereafter that such contract(s) fully satisfy conditions (1), (2) and (3).

The FCC should require that conditions (1) through (4) be complied with for not less than five years following the approval of the merger. These conditions should be in addition to those that FOX has committed to accept in regards to making FOX programming available to non-affiliated MVPD's on a non-exclusive, non-discriminatory basis.

Pegasus believes that the conditions outlined above will limit FOX's ability to pursue a strategy of vertical pricing and will ensure that FOX's contractual relationships with DIRECTV are transparent. We believe that the suggested conditions will be self-effectuating and will therefore not impose an undue administrative burden on the FCC. The FCC would be required to act only in the event that FOX or DIRECTV do not make the required filings timely or if the representations made in such filings are shown to be incomplete, inaccurate or false.

The proposed conditions articulated here could also be applied to other areas where affiliate relationships that result from the merger, if approved, could influence prices and terms of access to important services. Examples of such other areas would be electronic programming guides and conditional access systems that ensure security in the distribution of satellite signals.

Thank you for your consideration.

Very truly yours,

//signed//

Kathleen M.H. Wallman