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36

37. Using the Commission's framework to estimate the profitability of permanent foreclosure of CSN-Philadelphia from DBS rivals, we estimate that the benefit of permanent foreclosure in CSN-Philadelphia equals:

$$\begin{aligned}
 & (\alpha * \text{Comcast profit}) + \text{Affiliate fee} + \text{Ad revenue} \\
 = & \quad \quad \quad \mathbf{REDACTED} \quad \quad \quad 37 \\
 = & \quad \quad \quad \mathbf{REDACTED} \text{ per subscriber per month} = \mathbf{REDACTED} \text{ per subscriber per year.}
 \end{aligned}$$

If this value is capitalized at a discount rate of 10 percent, the equity value of each subscriber is

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38. In summary, our analysis indicates that permanent foreclosure would be a profitable strategy for Comcast in the CSN-MidAtlantic (post-transaction) and CSN-West footprints at rates **REDACTED**

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IV. ANALYSIS OF DISCRIMINATORY PRICING.

39. The Commission's program access rules prohibit explicit price discrimination by any programmer that is affiliated with a cable operator. As we explained in our prior submission, however, Comcast's pricing for CSN-West, launched on November 2, 2004, raises discriminatory concerns. CSN-West carries only one men's professional sports team, the NBA's Sacramento Kings. Comcast has established a three-zone pricing structure for CSN-West – an "inner" zone (areas in and around Sacramento), an "outer" zone (extending up to 150 miles from Sacramento), and an "outer outer" zone (covering the San Francisco Bay area). The price per subscriber is highest in the "inner" zone and lower in zones further out. The "outer outer" zone contains large population centers (e.g., San Francisco) and the largest number of potential subscribers of the three zones. In fact, the "outer outer" zone contains 54.5 percent of the total population in the three zones.³⁸

40. Under CSN-West's pricing structure, DIRECTV pays for RSN programming in the "outer outer" zone even though CSN-West does not have the rights to show Kings games to viewers in that area. That is, to acquire the ability to show Kings games to its subscribers in the Sacramento area, DIRECTV must pay substantial affiliate fees to CSN-West for subscribers

38. The counties included in the CSN-West footprint are identified by Comcast. See COM-III.A.4 (Comcast does not include one county – Lassen, California – in the CSN-West footprint even though it is surrounded by CSN-West counties identified by Comcast. For the purpose of our analysis, we include this county in our analysis). We identify each zone based on zip code information provided to us by DIRECTV. If a county contains zip codes from more than one zone, we treat that county as belonging to the closest-in zone (e.g., if a county contains an "inner" zone zip code and an "outer" zone zip code, we treat the county as being in the "inner" zone).

who cannot watch Kings game, the only men's professional sports games available on CSN-West. As a result, although the explicit price charged to DIRECTV in each zone may be the same as that charged to other MVPDs, the effective average price paid by DIRECTV for RSN programming provided to those subscribers who can see Kings games is higher than the "nominal" inner and outer zone prices.

41. In contrast, as we explained in our prior submission, a cable operator with subscribers in only inner and/or outer zones pays just the inner or outer zone prices, and a cable operator with subscribers in only the "outer outer" zone will not carry (or pay for) CSN-West. Furthermore, the price Comcast pays for CSN-West is a form of internal transfer, and so Comcast is not harmed by paying for CSN-West programming in the "outer outer" zone.

42. The information provided by Comcast confirms that the CSN-West pricing structure effectively discriminates against DIRECTV (and EchoStar).

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43. The CSN-West pricing structure enables Comcast to charge effectively different prices to cable companies (including itself) and DBS suppliers.

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In contrast, the DBS suppliers pay CSN-West for each of their subscribers in the "outer outer" zone, which effectively

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increases the price they pay for Kings programming in the "inner" and "outer" zones.

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44. We understand that roughly 60 percent of DIRECTV subscribers in the CSN-West footprint reside in the "outer outer" zone, and that these subscribers account for about 33 percent of the affiliate fees paid by DIRECTV. These totals imply that the effective rate paid by DIRECTV in the "inner" and "outer" zones (i.e., for subscribers who can watch Kings games) is approximately 150 percent of the average rate paid by cable subscribers in those zones.³⁹

V. VERTICAL ANALYSIS OF THE PROPOSED TRANSACTIONS IS RELEVANT AND APPROPRIATE.

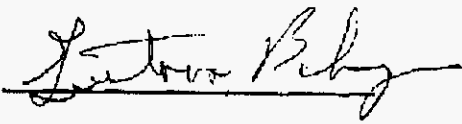
45. We understand that Comcast and Time Warner have argued that the proposed Transactions differ from the *News-Hughes* transaction previously analyzed by the Commission because *News-Hughes* was a "vertical" transaction, while the Transactions currently at issue are "horizontal." At most, they argue, any vertical analysis should be limited to regions where Comcast and Time Warner are already affiliated with an RSN.

46. We disagree. The proposed Transactions affect the incentive and ability of Comcast and Time Warner to engage in vertical anticompetitive strategies because substantial numbers of current Adelphia subscribers will become Comcast (or Time Warner) subscribers in areas served by a Comcast (or Time Warner) RSN. More importantly – because substantially more subscribers could be affected – historical experience indicates that Comcast (or Time

39. Suppose, for example, that DIRECTV has 4,000 subscribers in the "inner" and "outer" zones and 6,000 subscribers in the "outer outer" zone (i.e., 60 percent of subscribers cannot watch Kings games). Also suppose that DIRECTV's average payment in the "inner" and "outer" **REDACTED** zones is _____ per subscriber per month. Then DIRECTV's affiliate fees for subscribers who can watch Kings games are _____ per month, and DIRECTV's affiliate fees for subscribers who cannot watch Kings games are _____ per month (i.e., 33 percent of total affiliate fees). Then the effective rate per subscriber who can watch Kings games is **REDACTED** per month. If cable firms pay the same nominal rate as DIRECTV in the "inner" and "outer" zones (i.e., _____ per subscriber per month), DIRECTV's effective rate per subscriber is 150 percent of the cable rate.

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Warner) may, as a result of the proposed Transactions, launch RSNs in areas in which it acquires a large share of cable subscribers, thus creating vertical relationships in those areas. Accordingly, our analysis of the vertical effects of the proposed Transactions is relevant and appropriate.



Gustavo Bamberger

3/1/2006

Date



Lynette Neumann

3/1/2006

Date

Table 1

Temporary Foreclosure Analysis for Comcast Mid-Atlantic, 2nd Quarter 2005
Assuming a Switching Rate
Pre-Transaction

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Month	Loss	Churn Rate	Subscribers	Gain in:	
				Nominal Revenue	NPV Revenue
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
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35					
36					
37					
38					
39					
40					
41					
42					
43					
44					
45					
46					
47					
48					
49					
50					
51					
52					
53					
54					
55					
56					
57					
58					
59					
60					
Total					
Net Gain					

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Table 2

**Summary of Temporary Foreclosure Analysis
For Comcast Mid-Atlantic, 2nd Quarter 2005**

Switching Rate	Gain From Temporary Foreclosure		
	Pre-Transaction	Post-Transaction	Difference

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Table 3

Temporary Foreclosure Analysis for Comcast West, 2nd Quarter 2005
Assuming a Switching Rate
Pre-Transaction

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Month	Loss	Churn Rate	Gain In:		
			Subscribers	Nominal Revenue	NPV Revenue
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
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44					
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46					
47					
48					
49					
50					
51					
52					
53					
54					
55					
56					
57					
58					
59					
60					
Total					
Net Gain					

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Table 4

**Summary of Temporary Foreclosure Analysis
For Comcast West, 2nd Quarter 2005**

Switching Rate	Gain From Temporary Foreclosure
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Table 5
Summary of Temporary Foreclosure Analysis
For Other Markets

Switching Rate	Gain From Temporary Foreclosure					
	Altitude Sports Entertainment	Fox Sports Florida	Fox Sports Ohio	Fox Sports Pittsburgh	Fox Sports West/West 2	Sun Sports

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DBS
 Subscribers

Post-
 Transaction
 Comcast or

TW Share	45%	50%	55%	40%	52%	50%
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