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To Whom It May Concern:

My name is Hal J. Singer, I am a Managing Director at Navigant Economics in Washington, DC. Today, along with my co-authors, Kevin W. Caves and Chris C. Holt, I presented my published paper on RSN pricing, titled "Vertical Integration in Multichannel Television Markets: A Study of Regional Sports Networks," to FCC staff. A copy of my PowerPoint presentation can be found in Appendix A. Also, please find a list of attendees, which is included in Appendix B.

Best,

Hal J. Singer  
Managing Director, Navigant Economics









# RSN Foreclosure Episodes

- Customer foreclosure: Time Warner/C-SET (Bobcats)
- Input foreclosure: MSG Network (Knicks, Rangers, Islanders, Devils)/AT&T and Verizon

# Theoretical Model

- Nash Bargaining game
- Calculus of complete foreclosure

# Theoretical Model

- Same model can be used to examine partial foreclosure

$$\Delta P = (1 - \mu) \times d \times \alpha \times \pi$$



# Empirical Model

- Panel of RSNs from 1998-2010 from SNL Kagan
- Database contains license fee, advertising revenue, programming expenses
- Appended that data with market shares and vertical affiliation
- 15 of the 35 RSNs in our sample are MVPD-affiliated as of 2010

# Summary Statistics

## Independent RSNs

Variable	Obs	Mean	Std. Dev.	Min	Max
<i>License Fee per Sub per Month (2010 dollars)</i>	102	\$1.81	\$0.69	\$0.19	\$2.94
<i>Local Market Share Interaction</i>	102	0.000	0.000	0.000	0.000
<i>Prog. Costs per Sub per Month (2010 dollars)</i>	102	\$1.65	\$0.68	\$0.22	\$3.99
<i>Ad. Revenue per Sub per Month (2010 dollars)</i>	102	\$0.37	\$0.17	\$0.10	\$1.20
<i>Age of Network</i>	102	11	8	0	27
<i>Year</i>	102	2007	3	1998	2010

## Affiliated RSNs

Variable	Obs	Mean	Std. Dev.	Min	Max
<i>License Fee per Sub per Month (2010 dollars)</i>	308	\$1.49	\$0.58	\$0.18	\$3.18
<i>Local Market Share Interaction</i>	273	0.135	0.219	0.000	0.719
<i>Prog. Costs per Sub per Month (2010 dollars)</i>	308	\$1.34	\$0.53	\$0.27	\$4.93
<i>Ad. Revenue per Sub per Month (2010 dollars)</i>	308	\$0.44	\$0.22	\$0.10	\$1.38
<i>Age of Network</i>	308	12	8	0	41
<i>Year</i>	308	2004	3	1998	2010

# Baseline Results

	(a)	(b)	(c)	(d)	(e)	(f)
<i>Affil</i>	0.0288 (1.33)					
<i>Affil Lag 1</i>		0.0631*** (4.50)				
<i>Affil Lag 2</i>			0.1058*** (4.50)			
<i>Affil Lag 3</i>				0.1117** (3.32)		
<i>Affil Lag 4</i>					0.0681* (2.13)	
<i>Affil Lag 5</i>						0.0487 (1.46)
<i>Prog. Costs per Sub per Month (2010 dollars)</i>	0.4004*** (3.34)	0.6861*** (4.14)	0.9190*** (19.22)	0.8943*** (12.75)	0.8669*** (8.27)	0.8414*** (6.91)
<i>Ad. Revenue per Sub per Month (2010 dollars)</i>	0.0586 (0.46)	-0.1316 (-0.48)	-0.4793*** (-4.04)	-0.4074* (-2.34)	-0.4249 (-1.53)	-0.4593 (-1.30)
<i>Age of Network Spline 1</i>	0.0889*** (9.14)	0.0642*** (7.53)	0.0519*** (9.30)	0.0388*** (5.53)	0.0286*** (3.96)	0.0101 (0.88)
<i>Age of Network Spline 2</i>	-0.0227 (-1.01)	-0.0065 (-0.44)	0.0019 (0.17)	0.0054 (0.33)	0.0259 (0.89)	0.0512 (1.10)
<i>Age of Network Spline 3</i>	0.0705 (0.84)	0.0207 (0.35)	-0.0067 (-0.16)	-0.0048 (-0.08)	-0.0683 (-0.64)	-0.1430 (-0.86)
<i>Constant</i>	-0.0310 (-0.19)	-0.1231 (-1.08)	-0.2371** (-2.53)	-0.0981 (-1.65)	0.0656 (1.63)	0.3334*** (4.52)
<i>Observations</i>	410	369	328	288	250	214
<i>R-squared</i>	0.820	0.886	0.933	0.920	0.901	0.887
<i>Number of networks</i>	41	41	40	38	36	33

# Results with Market Share Interaction

Appendix A

	(a)	(b)	(c)	(d)	(e)	(f)
<i>Affil</i>	0.0383 (1.82)					
<i>S</i>	0.0638 (0.71)					
<i>Affil Lag 1</i>		0.0652*** (4.12)				
<i>S Lag 1</i>		0.0695 (1.45)				
<i>Affil Lag 2</i>			0.1148*** (6.06)			
<i>S Lag 2</i>			0.0917** (2.92)			
<i>Affil Lag 3</i>				0.1219** (3.04)		
<i>S Lag 3</i>				0.1255** (2.96)		
<i>Affil Lag 4</i>					0.0815* (2.34)	
<i>S Lag 4</i>					0.3311** (3.41)	
<i>Affil Lag 5</i>						0.0512 (1.33)
<i>S Lag 5</i>						0.5380** (2.70)
<i>Prog. Costs per Sub per Month (2010 dollars)</i>	0.3475*** (3.63)	0.6244*** (4.50)	0.8628*** (15.07)	0.8513*** (9.57)	0.8411*** (11.29)	0.8156*** (14.63)
<i>Ad. Revenue per Sub per Month (2010 dollars)</i>	-0.0183 (-0.20)	-0.1710 (-0.77)	-0.5184*** (-4.65)	-0.4744** (-2.85)	-0.3908* (-2.13)	-0.1991 (-1.00)
<i>Age of Network Spline 1</i>	0.0930*** (13.65)	0.0675*** (10.62)	0.0593*** (6.10)	0.0433*** (4.22)	0.0268*** (4.74)	0.0030 (0.27)
<i>Age of Network Spline 2</i>	-0.0245 (-1.01)	-0.0127 (-0.59)	-0.0119 (-0.72)	-0.0087 (-0.71)	0.0222 (1.20)	0.0614 (1.25)
<i>Age of Network Spline 3</i>	0.0920 (0.87)	0.0563 (0.62)	0.0616 (0.94)	0.0619 (1.65)	-0.0433 (-0.67)	-0.1773 (-0.97)
<i>Constant</i>	0.0047 (0.03)	-0.0556 (-0.58)	-0.2316** (-3.05)	-0.0723 (-1.71)	0.0853** (3.21)	0.3217** (3.91)
<i>Observations</i>	375	335	295	259	223	188
<i>R-squared</i>	0.835	0.893	0.942	0.934	0.920	0.911
<i>Number of networks</i>	40	40	39	36	35	32

# Potential Criticisms

- Endogeneity: Cable firms with larger footprints buy more expensive RSNs
- Lag structure: Uncertainty of relative timing of renegotiation and change in VI status
- Extent of vertical integration

# Conditions for Anticompetitive Effects

- Not concerned about wealth transfer from distribution rival to VI entity
- But output could fall depending on reaction of distribution rivals

# Policy Implications

- Balance potential merger efficiencies (e.g., investment incentives) against potential vertical price effects
- Choice between conduct or structural remedy
- DOJ/FCC chose conduct remedies in Comcast/NBCU, Time Warner/Adelphia
- CRTC chose structural remedy in Bell/Astral

**FCC – Vertical Integration in Multichannel Television Markets: A Study of Regional Sports Networks Attendees**  
Tuesday, May 21, 2013

<b>Name</b>	<b>Bureau/Office</b>
Jonathan Levy	OSP
Steve Wildman	OSP
Daniel Shiman	MB/IAD
William Durdach	MB/Policy
Brendan Murray	MB/Policy
Kathy Berthot	MB/Policy
Brendan Holland	MB/IAD
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Erik Ralph	WCB
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Preston Chin	OSP
George Williams	MB
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Johanna Thomas	MB
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