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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

Name	Bureau/Office
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
Jim Bird	OGC
Erik Ralph	WCB
Tracy Waldon	MB
Yvette Tarlon	OGC
Preston Chin	OSP
George Williams	MB
Irene Wu	MB
Raelynn Remy	MB
Judith Herman	MB
Thomas Spavins	EB
John Scott	MB
Johanna Thomas	MB
Nancy Murphy	MB
Marcia Glaberman	MB
Ben Arden	MB
Andrew Wise	MB
Simon Banyai	MB