

TWC's Arrangement Adds Wrinkle to Comcast Merger Plan

Bright House Agreement Will Expand Power to Buy Programs

As the Federal Communications Commission reviews [Comcast Corp.](#)'s [CMCSA +0.31%](#) proposed acquisition of [Time Warner Cable Inc.](#), [TWC +0.26%](#) one issue it has to decide is whether to allow Comcast to continue TWC's long-standing arrangement to handle programming and technology acquisitions for the sixth-biggest cable operator, Bright House Networks.

The issue is complicated. Allowing the deal to continue would give Comcast even more scale in programming negotiations, but blocking it could raise costs for Bright House and potentially its customers.

Bright House, part of the Newhouse family's media empire, serves 2.1 million video customers in states like Florida, California, Alabama, Indiana and Michigan. Under an arrangement dating to a 1990s partnership between the two companies, TWC has an ownership interest in Bright House and handles programming negotiations, technology deals and engineering services for the firm, for an annual fee. TWC's interest doesn't give it rights to share in Bright House's profits, however; the Newhouses retain full "economic" ownership as well as management of Bright House cable systems.

Comcast has told the FCC that it will inherit TWC's interest in Bright House as a result of the Time Warner Cable acquisition. A person familiar with the matter said that the programming and technology arrangement would likely continue as well. But in a filing with the FCC in June, Comcast left the issue up in the air, noting that the two parties "have yet to determine the parameters of their relationship post-transaction."

That filing made clear the issue has already come up with the FCC. Comcast said it was providing details about TWC's Bright House relationship, along with other TWC matters, "at the request of Commission staff."

The proposed combination of Comcast, the No. 1 cable operator, with Time Warner Cable, the No. 2, has sparked widespread concerns about Comcast's resulting market power, especially in the broadband marketplace. Comcast serves about 22 million subscribers while Time Warner Cable serves 11 million, not counting Bright House's subscribers.

To assuage concerns about its size, Comcast said when it struck the TWC deal in February that it would divest itself of subscribers to keep it below 30% of the pay TV market. It subsequently reached agreements to divest itself of 3.9 million subscribers across the country, more than it originally proposed.

If Comcast continues handling Bright House's programming negotiations, Comcast would be buying programming for 32 million customers, or nearly 32% of the pay TV market, which SNL Kagan estimates to total 101 million homes. It would extend Comcast's influence in broadband to the 1.9 million Internet customers served by Bright House.

In the June filing, Comcast noted that even assuming "existing contractual arrangements remain in place without alteration," the Newhouse family would still manage Bright House's systems, not Comcast. Therefore Comcast's total number of "managed" subscribers would still remain below 30% of the pay TV market.

Requiring a termination of the programming arrangement would mean Bright House would have to negotiate independently with TV networks in a world that is becoming increasingly difficult for smaller operators. Bigger pay-TV operators are typically able to negotiate lower programming fees per subscriber than smaller firms. Industry executives say that Bright House could face difficulties replicating the TWC arrangement with another cable operator, as programmers

would be less amenable to such a deal today than two decades ago, when the Newhouses and TWC first formed their partnership.

In the filing, Comcast alluded to Bright House's situation, noting that a "termination of the services or other agreements that currently support" Bright House would mean it would be "at risk of losing the material benefits such agreements provide, include possibly raising costs for its customers and hampering its ability to compete effectively—a result that would certainly not be in the public interest."

The Newhouse family's future ownership of Bright House has even been in question. Bright House earlier this year hired UBS Securities as an adviser as it navigated the implications of a change in control of Time Warner Cable. TWC has a right of first offer on the Bright House systems under certain circumstances, according to a TWC regulatory filing. A Bright House spokeswoman declined to comment on a possible sale.