



May 6, 2002

The Honorable Michael Powell
Chairman, Federal Communications Commission
445 12th Street SW
Washington, DC 20554

Re: DirecTV-Echostar

Dear Mr. Powell:

For three years, the Hands Off the Internet coalition (www.HandsOff.org) has promoted the idea that the best way to foster Internet growth is through the discipline of the marketplace. Those companies that move aggressively to offer consumers a viable service can - and should - reap the benefits. Those that do not (Excite@Home comes to mind) deserve their fate.

With that in mind, we write to convey our belief that the EchoStar-DirecTV merger is, ultimately, in consumers' best interest. Here's why:

Consolidation in the satellite industry means serious television and high-speed Internet competition for consumers. By adding DirecTV, EchoStar can create an efficiency of operations that will allow it to become a much stronger competitor to cable (in television) and cable/DSL (in broadband).

Just run the numbers: There will be greater sources of income and increased customers on whom to spread the fixed costs of satellite delivery. Any way you run it, it adds up to a better competitive base on which to deploy services.

More important are the economics. Look at what economists call the "switching cost" - that is, the cost to consumers to switch services from cable to satellite. Even a few years ago, costs ran into the hundreds of dollars, as consumers had to buy a new dish and pay for the rooftop installation and hook-up.

Since last year, however, as satellite has grown, these costs have shrunk to less than \$100 for multi-box hook-ups - and sometimes free for single-box installations.

On the down side, however, this has sent satellite's new subscriber acquisition costs spiraling to an estimated \$500 per subscriber. If DirecTV and EchoStar continue to operate as separate companies - without the economies of scale of a combined company - these switching costs will eventually become unsustainable.

When that happens, switching costs will rise and consumers will be less likely to move from cable. That benefits no one - except the cable companies. And rural customers, for whom DSL and cable are not viable options, will be hurt the worst.

Finally, it's worth noting that satellite television has emerged as a viable alternative to cable TV precisely because lawmakers and regulators evened the playing field between the two. The consolidation - and new economies of scale - for the cable industry also applies to satellite.

As Business Week has editorialized, "Cable operators won't be happy with a more powerful satellite operator in their midst. But that's the point. If they want to survive, they'll have to lower rates or offer more channels."

TV users have nothing to lose but blurry pictures and slow Internet access.

Sincerely,

A handwritten signature in black ink, appearing to read "P. Arnold", written in a cursive style.

Peter Arnold
Executive Director

9/9 SEP