

8/5/02

## FCC Comments on Echostar/Hughes Merger

Dear Sirs:

Well at first when I heard about the merger I was excited. I was thinking of all the advantages a merger would bring to the world of DBS. After watching events unfold, I am now on the fence, but leaning towards not liking the merger any more.

So, the question comes up, why do we need the merger:

### **1. Will provide local TV to all DMAs.**

Well this sounds like a noble goal. After thinking about it for a while, I wonder why this is even important? Independent they will probably cover the top 75 markets (I know they say 50 is all they can do, but Echostar especially with "wing" satellites could easily do 100, maybe even 125+ if they put a spot satellite on one of the "wing" satellites). If they used 5 transponders on 61 and 5 on 148 to do east and west US, they probably could even go to 150+ markets. Actually with the 35 transponders they have on the "wing" satellites they could do ALL DMAs, but it is not really profitable for them to do it.

The Top 75 markets are 78.2% of the population.

But, the question comes up, why would I like to have locals on DBS? The reception quality is 100x better over the air. Even basic cable is about the same as DBS. Soon my market will go to HDTV. This will be 1000x better than DBS, and DBS has no plans for HDTV at all... maybe just 12 national stations. If I am unable to receive all locals over the air (as with some stations in my market, since they are not even transmitted) I can buy distant/super stations. Many of the smallest DMAs only have one or two channels and would have to have distant anyways. With 78% of the nation able to get DBS locals, and the rest would probably need some distant anyways.

### **2. Able to provide nationwide broadband Internet connections.**

Well the service already exists without the merger. I do not see how a combined company can really improve on this. The companies that do it now have trouble attracting subscribers and are going broke doing this. How will a money draining enterprise be attractive to the DBS market? This is just an appeasement as number one above is. They will probably have to discontinue the service after a while because it is not profitable. I currently live in an area that is not serviced by DSL/ISDN/Cable modems. I obtain high speed internet service by a wireless provider. The provider can provide this service with a radius of 15 miles around a tower. The service is far faster than the planned DBS service, and more

importantly the round trip packet time is far faster because the signal is not bouncing off of the satellite a couple times. The real reason satellite Internet is unpopular is because it is not interactive due to this lag. No one wants to wait  $\frac{1}{2}$  to  $\frac{3}{4}$  of a second longer for it to bounce off a satellite a couple times to start any internet transaction.

### **3. Unified national pricing.**

Well this is probably not a good thing. With competition they will fight each other with low prices. Yes, in some markets they might have a lower price than national rates for various reasons, this does not raise national prices. There has been a good history of minimal price increases anyways. With only one company they could do like the cable companies and raise prices every year. Yes they may still be lower than cable, but in my case they are 40%+ lower than cable. Making one company with 20% below cable just raises prices for everyone equally. DBS is very effective competition for cable, having 2 DBS providers provides very strong competition.

### **4. Able to add the latest technology like 8PSK to increase variety and add HDTV.**

Well, last I looked Echostar was going to pay 26 billion for DirectTV, this is over \$2500 per subscriber. They could instead use the money to update their own subscriber boxes, and satellites and end up with a great system and still have tons of money left over. Echostar is already converting HDTV reception to 8PSK. They can come out with new set top boxes that can receive advanced signals like 8PSK and 16QAM and after a couple of years with customer churn, new customers, and old customers upgrading to get the newest features, most of their base will have the ability to receive new signals. For minimal cost they could replace the rest of the old boxes. They also have the option of applying for new spectrum like the Ka band. They have many ways to expand without becoming a monopoly.

In the area of HDTV Echostar has said they would like to have up to a dozen HDTV stations on satellite. The problem with that is that it does not cover any local stations, except maybe they could receive CBS via the NY/LA affiliate that they carry if the subscriber happens to live in a CBS owned and operated market. The combined company has no plans announce at all for HDTV beyond 12 stations. Why would a monopoly have any incentive to carry local stations in HDTV? Competing companies could use it as a competitive advantage.

Another approach to HDTV would be a combined effort Local in Local satellite(s). As a joint venture they could share the costs of an HDTV satellite for example in the Ka band. This approach could also be used for LIL for all DMA, again no merger needed.

So, I have come to the conclusion that consumers will not gain anything from the merger (besides LIL of dubious value) but higher prices. Will I go back to cable?

No way at this time, it costs more and delivers less. And even with the current quality levels of DBS, it still beats digital cable. Now if Echostar went up in price to near cable rates and cable started carrying tons of HDTV, I would switch back to cable very fast, or if DirectTV was still a separate company they could provide a lower rate.

I am sorry if Echostar does not want to work hard and win the DBS wars without taking over DirectTV, but competition is what is needed. In reality with what Echostar currently has they should be able to trounce DirectTV without trouble. DirectTV has 46 national transponders, Echostar has 50 national and 35 "wing" satellites (essentially each can do about  $\frac{3}{4}$ + of the US). It is just easier to eliminate the competition by buying it out than it is to win by competing.

Sincerely,

Michael Callahan