**Senator Klobuchar**
**Questions following the AT&T/DIRECTV Hearing**

## For Mr. White

1. Your testimony implied that the only way to offer customers a single bill is by merging with AT&T. However, AT&T's website indicates that it is possible for customers to receive a single bill with an AT&T/DIRECTV synthetic bundle if they the bundle from AT&T.[1] In fact, Michael Katz, an economist who contributed to AT&T's public interest filing with the FCC, specifically notes that a $5 discount is given to customers who sign up through AT&T to receive only one bill. Why is this merger required to give this particular convenience to customers? Why is DIRECTV not offering a single-bill option today? Given that AT&T is already able to offer one bill to customers, should this be considered by the subcommittee and the antitrust agencies as a merger specific efficiency?

*Providing a single bill is absolutely a merger-specific efficiency for DIRECTV. Although we have worked to provide a single bill for more than a decade, the cost of doing so simply isn't justified in the absence of a merger.*

*To your specific question—why AT&T can offer a single bill when DIRECTV cannot—one answer is that AT&T already has the technology in place and we do not. In the wake of industry consolidation in the late 1990s and early 2000s, telephone companies (including AT&T) developed and deployed a technology called EMI that, essentially, allows one company's billing systems to "understand" the billing system of another company. (This could be thought of as akin to the technology that allows Microsoft Word to convert WordPerfect files.) Because AT&T has already deployed this technology, its billing system can import and use data from DIRECTV's billing system.*

*This technology, however, works in only one direction. Unless DIRECTV adopts the EMI or similar technology itself, it cannot import and use data from AT&T's billing system. Moreover, it would have to add technology that could read broadband billing data and voice billing data separately. And, since DIRECTV has eight separate bundle partners, we would have to implement this technology repeatedly. We estimate that the total cost could approach $80 million overall. We have examined this issue repeatedly, but could never justify such expenditures in light of the expected incremental return they would generate (reflected either in increased revenue or decreased customer churn). This is especially true given that an independent broadband provider is under no obligation to renew our relationship in the future, and thus our investment could be stranded after only a few years.*

*This transaction changes these unfavorable conditions in two ways. Generally, it will give the parties strong incentives to seek common technology platforms in*

[1] http://www.att.com/shop/bundles/directv-internet-phone.html "Why Bundle? . . . Make payments on one bill."

*order to capture efficiencies of scope and scale, which themselves might be sufficient to offset some or all of the cost of integration. Specifically, it will allow a single entity to serve all bundle customers for the combined company, allowing AT&T to use its existing technology to offer single bills, even for independent broadband providers with which DIRECTV will continue to have "synthetic" bundle arrangements.*

2. How does this merger fix the problem of "double marginalization?" According to you and Mr. Stephenson, if the merger is permitted, only one company needs to make a profit on an integrated bundle, rather than two with a synthetic bundle. However, the combined AT&T/DIRECTV would only have one other bundle to compete with in most markets. Will such a duopoly result in the cost savings from converting a synthetic bundle into a regular bundle being passed onto consumers?

*As Dr. Michael Katz explained to the FCC, a merger of companies that sell complementary products (like broadband and video) eliminated "double marginalization," which in turn creates downward pressure on prices. As he puts it:*

> *When two products are sold by independent firms, neither seller takes into account the effects of its price on the sales and profits of the other seller. A combined firm, however, considers the effects of each of its prices on the sales and profits derived from both products. . . . Absent a merger, two firms selling complementary products set their prices or margins higher than is jointly optimal, leading to what is known as a "double marginalization"* problem.

*He further explains that, because it solves the double-marginalization problem, a merger between providers of complementary products creates downward pricing pressure <u>even in the absence of any efficiencies in the form of cost savings or quality improvements</u>. In other words, even if this transaction would generate no other cost savings at all, it would create downward pricing pressure on the rates charged consumers.*

*In order to test economic theory, Dr. Katz conducted an extensive simulation analysis. The simulation demonstrates that the proposed merger will place downward pressure on (1) the price of bundles combining AT&T's Internet access services and DIRECTV's video services; and (2) the prices charged by cable companies within AT&T's footprint for their Internet access and video services, both when sold in bundles and on a standalone basis.*