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F. Technical Standards and Interactive Television (“ITV”)<sup>14</sup> Services/Equipment

F.1. With what retailers has each of the Applicants reached agreements for in-store sales of cable modems? Please describe in detail how retailers are compensated under such agreements. Do subscribers that provide their own cable modem receive a lower monthly charge for cable modem service?

**Comcast Response:** *Agreement with Retailers.* Cable modems are widely available from unaffiliated retailers, and their retail availability is not dependent on agreements with cable operators. Moreover, retailers are an important source for reaching potential high speed Internet service customers. Thus, although Comcast has not entered into specific agreements with retailers for in-store sales of cable modems, it has a number of agreements with retailers for in-store promotion and sale of its high speed Internet service service. Currently, Comcast has agreements with [REDACTED] to sell Comcast’s high speed Internet service.

[REDACTED]

These retailers may also sell cable modems to purchasers of Comcast’s high speed Internet service.

[REDACTED]

*Pricing to Subscribers.* Customers who provide their own cable modem are not required to pay the \$5 fee that Comcast charges to lease a cable modem. This is true regardless of whether their purchase of high speed data service or a cable modem was made at retail or through Comcast directly. The monthly recurring charge for high speed Internet service remains the same regardless of whether the customer provides his or her own cable modem.

**AT&T Broadband Response:** *Agreements with Retailers.* Cable modems are widely available from unaffiliated retailers, and their retail availability is not dependent on agreements with cable operators. Moreover, retailers are an important source for reaching potential high

<sup>14</sup> For purposes of this request, interactive television services are services that support subscriber-initiated choices or actions that are related to one or more video programming streams, including, but not limited to, electronic program guides (“EPGs”) and video-on-demand (“VOD”) services. [Footnote in original FCC request.]

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speed data (“HSD”) service customers. Thus, although AT&T Broadband has not entered into agreements for in-store sales of cable modems, it has a number of agreements with retailers for in-store promotion of its HSD service. On a national basis, AT&T Broadband has agreements with [REDACTED] under which these retailers market AT&T Broadband HSD service. In addition, AT&T Broadband has over [REDACTED] retail arrangements with smaller local and regional retailers. For example, AT&T Broadband has arrangements with [REDACTED]

[REDACTED]

*Compensation.* AT&T Broadband compensates retailers for HSD service customer referrals in a variety of ways. Specific compensation structures vary by agreement, but compensation may include:

[REDACTED]

*Pricing to Subscribers.* [REDACTED]

[REDACTED]

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This response addresses AT&T Broadband's owned and operated and consolidated systems. AT&T Broadband does not have relevant information for systems in Parnassos Communications, L.P., CC VIII, L.L.C., Insight Midwest L.P., Kansas City Cable Partners, Texas Cable Partners, L.P., US Cable of Coastal - Texas, L.P., Midcontinent Communications, and Century - TCI California Communications, L.P.

**F.2. What steps has each Applicant taken to conform to the Open Cable Applications Platform ("OCAP") standard? Please describe the current status of each Applicant's vendors' conversion of proprietary software to the OCAP standard.**

**Comcast Response:** Comcast is strongly committed to the continued development of OCAP-compliant set-top box ("STB") hardware and software. In December 2001, Comcast, AT&T Broadband, and other leading cable MSOs made clear that they intend to take all reasonable steps to ensure that their cable systems will support CableLabs-certified, OCAP-enabled devices. A copy of the letter articulating this commitment, which was submitted to the Commission by NCTA in another proceeding (PP Docket No. 00-67) on January 3, 2002, is appended as Attachment 27.

Comcast has taken a number of steps to promote the adoption of the OCAP specification. *First*, Comcast has begun ordering STBs that are capable of running OCAP-compliant software. Comcast placed an order with Pace Micro Technologies in June 2000 for STBs capable of running OCAP-compliant software, and Comcast expects to receive delivery of the first boxes capable of running OCAP-compliant software in approximately December 2002. In addition, Comcast entered into an agreement with Motorola in April 2002 to purchase Motorola DCT 5100 high-definition television STBs which will also be able to run OCAP-compliant software.

*Second*, Comcast continues to make it a requirement of its potential middleware vendors for advanced STBs that they provide an OCAP-compliant solution. In this regard, Comcast has begun negotiations with Liberate Technologies to develop OCAP-compliant middleware for Comcast, and Liberate Technologies has begun developing OCAP-compliant middleware and applications for Comcast.

*Third*, Comcast has begun requiring its application software vendors to structure their application software so that the software will be compatible with OCAP. This is being done by structuring the application software so that it can interface with a version of Java that is



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compatible with the OCAP specifications. As a result, these software applications will not have to be rewritten once OCAP middleware has been deployed. Examples include the following:

Electronic Program Guide (EPG): At Comcast's request, Liberate has re-written the TV Guide EPG in Java. Motorola is currently in the process of certifying this version of the TV Guide EPG for operation on the network. It will be deployed as soon as it is certified.

Video-on-Demand: At Comcast's request, Liberate has also written a Java version of a video-on-demand application, with a look and feel similar to the TV Guide EPG. Motorola is currently in the process of certifying this video-on-demand application for operation on the network. It will be deployed as soon as it is certified.

ITV Applications: Numerous providers have written downloadable applications such as games in Java to execute on digital STBs deployed by Comcast. Comcast plans to deploy some of these applications later this year.

ITV Content: Meta TV has developed for Comcast methods for delivering content in HTML and XML, including news, weather, sports, and business data. Comcast plans to deploy this content later this year.

It should be noted that Comcast initially will deploy these services for use with Motorola DCT 2000 STBs that are not OCAP-compliant. These services will, however, be capable of running on OCAP-compliant STBs once these boxes are deployed. Comcast plans to use the same Java EPG, video-on-demand and downloadable applications and the same Meta TV content later this year on OCAP-compliant STBs, such as the PACE Daytona and the Motorola DCT 5100. Next year, as Comcast deploys additional video-on-demand and ITV services, these advanced STBs will migrate from the current version of Java and HTML support toward a complete implementation of OCAP.

**AT&T Broadband Response:** AT&T Broadband has supported and actively participated in CableLabs' OCAP middleware development initiative from its inception. As noted, AT&T Broadband, together with Comcast and other leading cable MSOs, has made clear that it intends to take all reasonable steps to ensure that its cable systems will support CableLabs-certified, OCAP-enabled devices. Moreover, AT&T plans to purchase OCAP-compliant STBs for lease and distribution to its subscribers.

AT&T Broadband has taken a number of actions in furtherance of these objectives. For example, as part of its ongoing participation in CableLabs' OCAP implementation efforts, AT&T Broadband engineers have made and continue to make significant contributions to CableLabs' development of documentation, which is to be provided to member companies and to headend equipment vendors, to assist them in the proper design and/or modification of networks to support OCAP. The initial draft of this documentation was completed earlier this year, and is now undergoing further review and refinement. In addition, AT&T Broadband has advised its

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STB vendors that any future products which they design for sale to AT&T Broadband must be OCAP-compliant. In this regard, [REDACTED]

Vendor efforts to convert their products to OCAP are at various stages. In February 2002, CableLabs sponsored an OpenCable developers' conference, in conjunction with 20 vendors actively developing products or services that support the OpenCable platform. More than 165 attendees from approximately 90 companies, including AT&T Broadband and several vendors with which it has a relationship (e.g., Motorola Broadband, Panasonic), participated in this conference. At the conference, 13 companies made presentations on OCAP implementation and other related topics. Following the developers' conference, CableLabs opened its facilities to interoperability testing, involving 14 active implementers, which successfully demonstrated the interoperability of several different interactive TV applications simultaneously running on various manufacturers' hardware platforms. This demonstration used MHP, the European middleware standard on which OCAP is largely based. [REDACTED]

[REDACTED] As the discussion above indicates, AT&T Broadband has advised existing and prospective vendors of the need to migrate their products and applications to OCAP as soon as possible.

- F.3. The Application states that, in connection with the exchange agreement between Comcast, AT&T, AT&T Comcast and Microsoft (the "QUIPS Exchange Agreement"), Comcast and Microsoft have agreed to a binding term sheet which provides that the parties will conduct a trial of an ITV platform, including set-top box middleware.<sup>16</sup> Please provide a copy of the term sheet.**

<sup>16</sup> *Applications for Consent to the Transfer of Control of Licenses, Comcast Corporation and AT&T Corp. Transferors, To AT&T Comcast Corporation, Transferee, MB Docket No. 02-*

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A copy of the term sheet was previously submitted under separate cover on June 26, 2002.

**F.4. Please provide a copy of any other contract, agreement or term sheet which grants Microsoft powers or rights in exchange for its financial support of the Applicants or the merged entity.**

**Comcast Response:**

[REDACTED]

[REDACTED]

[REDACTED]

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70, Applications and Public Interest Statement at 8 (filed Feb. 28, 2002) (“Application”).  
[Footnote in original FCC request.]

[REDACTED]

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**AT&T Broadband Response:** Documents responsive to this request are being concurrently filed under separate cover with the Commission and bear bates numbers starting with the prefix “AT&T Broadband-FCC-F.4.”

This response addresses AT&T Broadband’s owned and operated and consolidated systems. AT&T Broadband does not have relevant information for systems in Parnassos Communications, L.P., CC VIII, L.L.C., Insight Midwest L.P., Kansas City Cable Partners, Texas Cable Partners, L.P., US Cable of Coastal - Texas, L.P., Midcontinent Communications, and Century - TCI California Communications, L.P.

**F.5. Please describe Comcast’s ownership interest in, and ability to control the operations of SeaChange International, Inc. and/or its affiliates (“SeaChange”). Please describe any agreements with SeaChange for the provision of ITV content, services, or equipment.**

[REDACTED]

[REDACTED]

[REDACTED]

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**F.6. Please describe Comcast’s ownership interest in, and ability to control the operations of TVGateway, LLC and/or its affiliates (“TV Gateway”). Please describe any agreements with TV Gateway for the provision of ITV content, services, or equipment. Please describe the TV Gateway service and competitive alternatives, if any, to that service.**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**F.7. Provide copies of all contracts or agreements which either Applicant has entered into with providers of video-on-demand services or equipment and/or electronic program guide products that contain clauses preventing such provider from providing the service or product(s) to competitors.**

**Comcast Response:**

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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**AT&T Broadband Response:**

[REDACTED]

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**G. Telephony**

- G.1. For any AT&T cable system in which cable telephony was available to any subscribers as of December 1, 2001, please provide the following information in an electronic spreadsheet form: a) The number of homes passed by such system; b) The number of homes passed to which circuit-switched cable telephony services are offered; and c) The number of such homes passed that subscribe to circuit-switched cable telephony services.**

A spreadsheet responsive to this request (and to the following Request No. G.2) is appended as Attachment 28. AT&T Broadband maintains the requested information on a market-by-market basis, rather than system-by-system basis. Accordingly, the spreadsheet contains responses by market.

- G.2. For each cable system included in the scope of your answer to Question 1 of this Section, please explain whether AT&T intended, prior to entering into the merger agreement, to upgrade such system to offer cable telephony services to additional homes passed by that system, and, if so, provide the schedule for completion of those upgrades. Please explain (i) the extent to which such scheduled upgrades will enable the provision of circuit switched or Internet protocol (“IP”) telephony and (ii) any changes or modifications that have been made or may be made to such schedule or to the type of technology to be deployed as a result of or in contemplation of the proposed transaction.**

*See Response to Request No. G.1 above.*

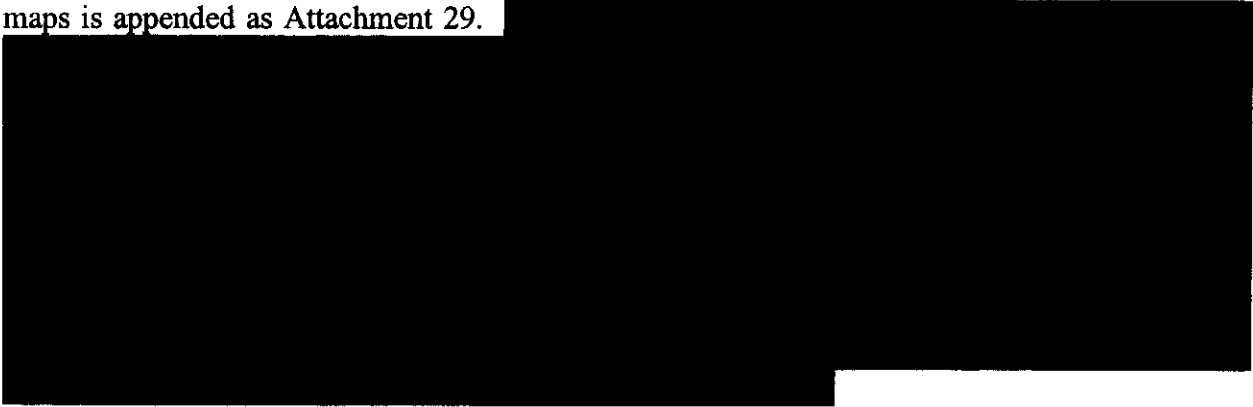
- G.3. Please provide all documents created on or after June 30, 2000 that discuss each Applicant’s plans and schedules for deployment of both circuit-switched and IP cable telephony. Please show planned deployment on both a pre-merger and post-merger basis.**

Documents responsive to this request are being concurrently filed under separate cover with the Commission and bear bates numbers starting with the prefixes “AT&T BB-FCC-G.3” and “Comcast-FCC-G.3.” In responding to this document request, the Applicants searched the documents produced from the files of the following individuals to the Department of Justice in connection with its review of the proposed merger: for AT&T - Greg Braden, Charlotte Field, and Cathy Kilstrom; for Comcast - Brad Dusto, Mark Coblitz, Robert Pick, Steve Craddock and Gregg Goldstein. AT&T and Comcast each believe that the designated individuals are the most likely to have custody of documents responsive to this request.


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**G.4. Please provide a map showing current and planned deployment of circuit-switched and IP cable telephony services in AT&T and Comcast service areas.**

**Comcast Response:** Three maps showing current and planned deployment of circuit-switched and IP cable phone services in Comcast service areas are being provided in response to this request. Two of the maps are being concurrently filed under separate cover with the Commission and bear bates numbers starting with the prefix “Comcast-FCC-G.4.” One of the maps is appended as Attachment 29.



**AT&T Broadband Response:** Maps showing current and planned deployment of circuit-switched cable telephony service in each of the sixteen markets in which AT&T Broadband has deployed cable telephony service are being concurrently filed under separate cover with the Commission and bear bates numbers starting with the prefix “AT&T BB-FCC-G.4.” AT&T Broadband has no firm plans for the deployment of IP cable phone service. The cable plant that AT&T has upgraded, and is upgrading, will be capable of supporting IP phone service upon deployment of the necessary electronics and systems, and AT&T Broadband has planned to use IP phone service in new deployments when the necessary equipment, systems and processes become commercially available and economically viable.



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- G.5. For each cable system in which either Applicant is providing or plans to provide cable telephony services, please describe the extent to which it will rely on (a) unbundled network elements or resale services obtained from the incumbent local exchange carrier or (b) network elements or services obtained from other telecommunications carriers, including AT&T Corp. (other than network elements that AT&T Corp. will assign to AT&T Broadband in connection with the Separation and Distribution Agreement).**

**Comcast Response:** (a) Comcast currently provides cable telephony services on its systems in the Detroit, Michigan; Alexandria, Virginia (including portions of Prince William County in Virginia and Prince George’s County in Maryland); and Baltimore, Maryland areas.<sup>22</sup> In the Alexandria area, Comcast currently purchases a small number of unbundled POTS loops from the incumbent LEC (Verizon) to provide service to a number of customers, and otherwise primarily provides services over its own cable network. Comcast purchases directory listing service from Verizon for use in the Alexandria area. In addition, Comcast purchases operator services, directory assistance, SS7, 800 database services, directory listings, local number portability, and centralized message distribution system services from the incumbent LEC (Ameritech) in the Detroit area. Comcast also purchases various local transport and termination services and access services in the Alexandria and Detroit areas pursuant to its interconnection agreements with Verizon and Ameritech. With these exceptions, Comcast does not currently use unbundled network elements (“UNEs”) obtained from the incumbent LEC to provide cable telephony. Moreover, it is generally Comcast’s intention to use its own facilities to deliver cable phone service to its customers today and in the future. Comcast currently does not purchase from incumbent LECs services for “resale” as that term is used in 47 U.S.C. § 251(c)(4) and has no plans to do so.

In the future, Comcast may use UNEs, including tandem switching, end office switching, interoffice transport, and SS7 functionality (including SCP, STP and signaling transport) obtained from the incumbent LEC in order to transport phone traffic between Comcast’s facilities and the public switched telephone network or other termination points.

(b) Comcast currently plans to use, and in some cases already uses, services obtained from other telecommunications providers. For example, Comcast purchases operator services and directory assistance from a third party provider to support its Alexandria area operations. It also purchases switching, operator services and directory assistance from a third party provider in Baltimore. Additional examples of services that Comcast does or may in the future obtain from third party providers (including AT&T Corp.) include local number portability, long distance, SS7 signaling transport, and CNAM (calling name) database services. The decision

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<sup>22</sup> As noted above, Comcast no longer markets service to new customers in Baltimore.

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regarding which provider to use for a particular service depends on typical business issues such as price, quality, availability, and speed to market.

**AT&T Broadband Response:** (a) AT&T Broadband does not currently use (and has no plans to use) resale services obtained from incumbent local exchange carriers in providing its cable telephony services. AT&T Broadband generally uses unbundled network elements purchased from incumbent carriers only when it is providing service to customers that reside in MDUs, in which cases AT&T Broadband leases network interface devices and sub-loop elements (from the NID to the individual customer's premise) from the incumbents. However, AT&T Broadband (like any cable phone provider) remains critically dependent upon incumbent local exchange carriers for nondiscriminatory interconnection, number portability, SS7 links to databases, operations support systems interfaces and a host of other functionalities. As described more fully in the Braden Declaration, AT&T Broadband has unparalleled expertise in negotiating, implementing and resolving disputes concerning cable telephony-related relationships with incumbent local exchange carriers and other third parties.

(b) AT&T Broadband obtains a number of switching, transport and other services from AT&T Corp. pursuant to certain intercompany agreements between AT&T Broadband and AT&T Corp. that are described more fully in the Form S-4 that Applicants filed with the Securities and Exchange Commission. *See also* Application at 17 & n.24.

- G.6. A supporting declaration estimates that the proposed merger will achieve \$600-800 million in additional earnings before interest, tax, depreciation and amortization (“EBITDA”) within three years through the provision of cable telephony services in Comcast’s service areas. Please explain the assumptions and projections that underlie this estimate, including, if applicable, the number of additional cable telephony customers and the projected average revenue per customer that the proposed merger would produce.**

To date, Comcast’s experience with cable telephony service has been relatively limited. AT&T Broadband, by contrast, has invested substantial resources in the development and launch of cable telephony. As explained in the Application and Reply Comments, the merger should permit AT&T Comcast to use AT&T Broadband’s extensive experience and expertise to accelerate the roll-out of cable telephony service to consumers and to create a larger and more effective facilities-based competitor to the incumbent local exchange carriers (“incumbent LECs”).

As indicated in the Declaration of Robert Pick, attached to the Application as Appendix 9 (“Pick Declaration”), based on information obtained by Comcast during due diligence discussions with AT&T Broadband, Comcast developed an estimate of additional EBITDA revenues that the roll-out of cable telephony service should produce post-merger. [REDACTED]

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As a result of these calculations, the Applicants established a range of EBITDA (\$600-800 million within five years) generated by the AT&T Broadband business model.

The Application acknowledged that the projections and estimates regarding the effects of AT&T Comcast's roll out of telephony service, as with other merger synergies, are inherently inexact. Moreover, in the course of calculating potential synergies and efficiencies, it was necessary for Comcast to rely upon the accuracy of the due diligence data it received and to make certain simplifying assumptions and estimates, which inevitably injected a level of uncertainty into the analysis. Within these constraints, the Applicants attempted to estimate the synergies and efficiencies likely to result from the merger as reasonably and accurately as possible based on the available data. In addition, as AT&T Comcast integrates the operations of Comcast and AT&T Broadband, it may modify its plans for the launch and rollout of services in light of the company's financial and operational performance, the financial performance of cable telephony service in the marketplace, and broader economic trends and developments.

**G.7. Please describe (a) the business case for making investments in cable telephony rather than in other new services, and (b) the impact on any planned deployment of cable telephony services on the merged company's ability to deploy other new services over the cable plant.**

(a) Providing phone service to customers presents an attractive business opportunity for AT&T Comcast, particularly because AT&T Broadband has developed extensive expertise in offering this service. Nearly every U.S. household has a telephone, and the overall revenues generated in selling telephone services to consumers are many times the revenues generated by the video programming business. As described in the Reply Comments, Comcast President (and AT&T Comcast CEO) Brian L. Roberts has stated that "there is no greater revenue opportunity than the hundred billion dollar a year local phone business."<sup>23</sup>

AT&T Broadband has shown that a cable company can successfully capture a significant share of these revenues by achieving high penetration rates in a relatively short time. As set forth in the Reply Comments,<sup>24</sup> AT&T Broadband has an overall penetration rate of 14.8% in

<sup>23</sup> Reply Comments at 12-13 (quoting AT&T Broadband and Comcast Merger, Joint Analyst Meeting, transcript at 7-8 (Dec. 20, 2001), attached to Reply Comments as Appendix 3).

<sup>24</sup> Reply Comments at 10-11; *see also* Braden Declaration ¶¶ 5-6.



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markets where it offers cable telephony service, and in some markets this rate is as high as 30%. It offers telephone service in sixteen markets, has enrolled over 1.15 million cable telephone customers, and is adding approximately 40,000 cable telephony customers every month. In fact, AT&T Broadband is now the tenth largest local telephone company in the country. AT&T Comcast will be able to leverage the substantial expertise and experience AT&T Broadband has gained in offering cable telephony service.<sup>25</sup>

Providing cable phone service can also create synergies that will help AT&T Comcast ensure that the other services it offers continue to be competitive. In particular, offering customers phone service as well as video programming and high speed Internet services can provide more overall value to the customer.

As explained below, there are practical limits on the number of new services a cable operator can deploy at any one time. Decisions regarding when and how to deploy cable phone service and other new services involve a comparative analysis of these different services based on a number of factors. These factors include the potential revenue opportunity created by the new service, the capital investment required to deploy the service, operational and marketing issues, and the regulatory treatment of the service. Applicants do not believe, however, that rolling out phone service offerings in Comcast markets will materially impact Comcast's plans to roll out other new services, as technological and market conditions and customer demand permit.

(b) Deploying new services over cable plant can involve a substantial commitment of resources, not only in terms of capital investment but also in terms of addressing the many technical, operational, marketing, and customer service issues involved in rolling out new services. As a practical matter, this can limit the number of new services a cable operator can deploy at any one time. Last year Comcast completed the upgrade of substantially all of its systems to offer digital cable service as well as high speed Internet service, and more recently has focused on the introduction of video-on-demand, which is now well underway. For its part, AT&T Broadband has invested substantial resources in deploying cable telephony and placed less of a priority on deploying such services as video-on-demand.

Recognizing the synergies that can be gained by leveraging AT&T Broadband's telephony expertise after the closing of the proposed merger, Comcast has announced plans to expand cable phone service into its current cable systems serving two of the nation's ten largest markets, Philadelphia and Detroit, thus offering about one million additional residential customers a choice of local telephone providers. Indeed, as described in the response to Request No. G.8, on June 27, 2002, Comcast announced its first deployment of a primary line IP phone service solution, thus launching the first stage of its Philadelphia deployment. It is difficult to be precise regarding the impact of deploying cable phone service on the rollout of other services,

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<sup>25</sup> Application at 39-42.

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because of the many variables involved in deploying new services, in particular the actions of competitors, as well as the fact that no decision has been made on exactly what other major new services may be in line for deployment. As noted above, however, the Applicants do not believe that rolling out phone service offerings in Comcast markets will materially impact Comcast's plans to roll out other new services, as technological and market conditions and customer demand permit.

AT&T Comcast will have strong incentives to continue to offer new services to meet consumer demand and thus continue to grow in an increasingly competitive marketplace.<sup>26</sup> At the same time, the roll-out of new services must be systematic and designed to maximize a smooth transition and consumer acceptance.

**G.8. To date, no cable operator has successfully deployed IP telephony on a commercial basis. Please provide a narrative explaining (a) what factors have impeded the commercial deployment of IP telephony, and (b) to the extent that the Applicants expect that the merged entity will deploy IP telephony on a commercial basis, how and when the merged entity would overcome such factors. Please include in your narrative any IP telephony trials that either Applicant has conducted or scheduled.**

(a) The commercial deployment of IP phone service has primarily been impeded by both technological and operational factors.<sup>27</sup> These factors, as well as the IP phone trials the Applicants have conducted, are described below.

Technology – The technological factors that have impeded the commercial deployment of IP phone service fall into three categories: (1) issues related to the cable network; (2) the need for replacement technology for a Class 5 switch, including elements of interconnection to the public switched telephone network (“PSTN”); and (3) scalability.

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<sup>26</sup> See Reply Comments at 14-17.

<sup>27</sup> Regulatory uncertainty can also create impediments to the deployment of new services such as IP phone service. For example, although earlier this year the Commission issued a declaratory ruling classifying cable modem service as an interstate information service, not a cable service, it at the same time initiated “a rulemaking proceeding to determine the scope of the Commission’s jurisdiction to regulate cable modem service and whether (and, if so, how) cable modem service should be regulated under the law . . . .” *Inquiry Concerning High-Speed Access to the Internet Over Cable and Other Facilities*, 17 FCC Rcd. 4798, ¶ 7 (2002). This proceeding raises a host of questions that may affect how a cable operator offers IP phone service.

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(1) *Issues Related to the Cable Network* – Providing a cable phone service that can compete with the local telephone service provided by incumbent LECs has required a number of developments in cable technology. The most critical of these has been CableLabs’s development of Data Over Cable System Interface Specification 1.1 (“DOCSIS 1.1”).

DOCSIS 1.1 is a technical specification that will support a competitive cable phone service. By way of background, the IP data path on a cable network is a shared environment, similar to a local area network in an office. At any moment in time, any number of users can be asking for service. If too many people on the network request service at one time, the result will be a possible slowing (either perceived or not perceived) of response time. This generally does not present a problem as long as the function of the network is to deliver only “best efforts” Internet access.<sup>28</sup> For voice communications, however, it is necessary for the data representing the voice communication to be sent and received within a tight time tolerance. It is also important to be able to assign certain packets, such as voice data packets, a higher priority to minimize the possibility that a voice data packet would be lost during transmission in periods of high use and congestion. DOCSIS 1.1 provides these capabilities and helps ensure that an IP phone call sounds clear and synchronized and parallels the grade of service currently offered on a circuit-switched wireline telephone. DOCSIS 1.1 also provides an improved security mechanism that can be used to ensure that voice communications remain private.

An essential component of providing IP phone service over a cable network is a Cable Modem Termination System (“CMTS”). Until very recently, there were no available CMTSs that complied with CableLabs DOCSIS 1.1. In addition, only recently have vendors been able to begin providing CableLabs Certified DOCSIS 1.1 modems with embedded Media Terminal Adapters (“MTA”), the part of the cable modem that handles voice communications. While it has been possible to conduct IP phone trials without these capabilities, the commercial deployment of IP phone service over cable plant requires DOCSIS 1.1-compliant network components in order to deliver consistent voice quality that is competitive with the wireline service provided by incumbent LECs. In addition, in order to provide competitive reliability levels, the CMTS will need to be carrier class, *i.e.*, it must be capable of maintaining calls in progress even when one of its individual components fails.<sup>29</sup> Fortunately, CMTSs that comply with DOCSIS 1.1 and that can provide carrier-class service are beginning to become available.<sup>30</sup>

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<sup>28</sup> In this context, appropriate network capacity planning can resolve response time issues.

<sup>29</sup> This capability has long been a part of the PSTN’s switching capability. However, it has only recently become available for DOCSIS-based equipment.

<sup>30</sup> The first CableLabs Qualified DOCSIS 1.1 CMTSs were announced on March 28, 2002.

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DOCSIS 1.1 modems with MTAs are also now available. Indeed, Comcast has already installed the first DOCSIS 1.1 compliant CMTS in the IP phone trial in the Detroit market as further described below. Although DOCSIS 1.1-compliant CMTSs are now available, deploying carrier class CMTSs throughout a cable system takes time and significant capital investment.<sup>31</sup>

Another network-related impediment to the development of IP phone service over cable systems has involved the need for backup powering. To provide a lifeline quality telephone service, the cable operator must be able to continue providing telephone service even when the customer's power is out. To satisfy this requirement, cable operators that provide circuit-switched telephony have used either network-powered or Network Interface Unit-powered backup systems.<sup>32</sup> Until recently, neither of these options was available for the DOCSIS modems used for IP phone service. However, a number of modems with embedded MTAs and battery backup now exist.

(2) *Replacement Technology for a Class 5 Switch* – In addition to the development of DOCSIS 1.1, the commercial deployment of IP phone service has required the development of technology that can provide a commercially viable substitute for the service provided by a Class 5 switch, including elements of interconnection to the PSTN.<sup>33</sup> IP-based technology has been used for certain types of voice communications for a number of years. These types of uses, however, have not provided a substitute for primary line telephony service as represented by a service delivered by a Class 5 switch in the existing PSTN. Providing such a service, and matching the quality of service offered by wireline telephone companies, has involved a considerable amount of development work, primarily by smaller technology companies. In addition, over the last several years, CableLabs has produced a specification, PacketCable, that provides for a set of interfaces and tools that support voice communications over cable networks that would be competitive with current wireline service.<sup>34</sup> Although field testing has been

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<sup>31</sup> Comcast currently uses DOCSIS 1.0 CMTSs in offering its customers high speed Internet service. Although Comcast's DOCSIS 1.0 CMTSs have the capability to run DOCSIS 1.1 via a software upgrade, they currently do not have the carrier class characteristics discussed above.

<sup>32</sup> The network interface unit ("NIU") is located on the side of the customer's home and connects the cable network with the in-house telephone wiring.

<sup>33</sup> A Class 5 switch is the type of switch currently used for local wireline circuit-switched telephony services.

<sup>34</sup> "PacketCable is a set of software-based mechanisms written to do exactly what today's analog, circuit-switched phone network does, from dial tone to ring tone. But unlike other [IP phone] specification efforts that address only portions of how to make a phone call work in IP, PacketCable maps out the entire journey." National Cable & Telecommunications Association ("NCTA"), "Cable Telephony: Offering Consumers Competitive Choice," at 5 (July 2001) (submitted with NCTA's Comments in CS Docket No. 01-129, filed Aug. 2, 2001). PacketCable

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conducted using non-compliant solutions, the commercial deployment of IP phone service has been delayed because no IP phone solution has to date been fully compliant with PacketCable specifications. This delay has been appropriate because deployment of non-compliant solutions would put in place legacy systems that would most likely not be as scalable, cost efficient, and flexible for new service development as a PacketCable solution. This situation should soon change, however: there are a number of solutions that appear to be very close to being PacketCable compliant. Such solutions will remove a principal obstacle to the deployment of IP phone service.

(3) *Scalability* – Until now, cable phone trials using IP technology to deliver voice services comparable to Class 5 switch service have been relatively small, usually involving no more than a few hundred users. Most IP phone software solutions should be able to serve anywhere from 20,000 to 100,000 users. This is well beyond the scale that has been tested to date. Now that the technological impediments to IP phone service have nearly been overcome, what remains is to begin wide-scale deployment and to integrate and assess all system components in terms of their ability to meet the demands of ever increasing numbers of customers. As with any large-scale software development, various technical issues will arise and need to be addressed as the system is increased in scale. This is one of the purposes of the staged deployment announced by Comcast on June 27, 2002 and further detailed below.

Operations – From an operations perspective, there generally is not a significant difference between providing circuit-switched service and IP phone service that is offered as a primary line service.<sup>35</sup> Thus, as explained below, the operational expertise AT&T Broadband has developed in offering circuit-switched telephony to its customers will be an extremely valuable resource to AT&T Comcast as it addresses many of the complex operational issues involved in deploying phone services in new markets. However, in provisioning IP phone service to a customer, it is necessary for the network to provide service to the particular cable modem and MTA associated with that customer. In order to support large scale deployment of IP phone service, this provisioning process must be automated, which requires new software that is only now being developed.<sup>36</sup>

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is now an International Telecommunications Union standard under the name IP CableCom. In its broader form, PacketCable addresses issues beyond voice communications and is a general solution for real-time multimedia services over cable networks. It includes critical elements that address quality of service issues as well as security issues such as fraud prevention and privacy of communications over shared networks.

<sup>35</sup> Services that do not provide primary line telephony may have different operating requirements.

<sup>36</sup> Prior to the development of this technology, provisioning was done manually in the IP phone trials that have been conducted.

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Trials – Comcast has conducted a number of IP phone trials to advance this new technology. From fall 1999 until early 2001, Comcast conducted an IP voice trial in northern New Jersey in conjunction with Lucent and Motorola. The basic purpose of this trial was to identify and assess the underlying technical issues related to a cable network's ability to delivery IP phone service and the effectiveness of certain technologies available at that time.

Also in the fall of 1999, Comcast developed an IP trial test bed as a part of its New Media Development facility in Philadelphia. Comcast worked with Cisco and Telcordia on this trial. The purpose of the trial was to leverage the learning from the New Jersey trial, work with different vendors, and utilize the test bed for the testing and integration of various components of an IP voice solution. This has included work involving connecting a cable IP phone system to the PSTN and SS7 networks. In addition, issues regarding access to 911 facilities are also being addressed. The trial facility is still in place, and has involved many different equipment and technology vendors. For example, from August 2001 until the present, Comcast has tested eight different IP call management servers on this trial facility.

From September 2001 until June 2002, Comcast conducted trials using IP technology in the access network connected to its Class 5 switch in the Detroit market. Comcast provides circuit-switched cable telephony services to over 25,000 customers in this market. This hybrid solution of IP and circuit-switching has allowed Comcast to install a DOCSIS 1.1 CMTS and test the access part of an IP solution in a real operating environment. This system is now operational.

AT&T Broadband conducted a limited technical IP phone trial in Boulder, Colorado from October, 1999 to February, 2000. The trial involved seven volunteer (and non-paying) users with IP transmission from the home to the headend (where the telephony traffic was converted to analog and circuit-switched).

(b) As described above, great strides have been made in developing the technical specifications and network components necessary to deliver an IP phone service over cable facilities that can compete against the circuit-switched telephone service offered by the incumbent LECs. The Applicants have dedicated substantial resources toward this effort, both through their support of CableLabs and in conducting their own IP phone trials.

As the result of these efforts, on June 27, 2002, Comcast announced its first deployment of a primary line IP phone solution.<sup>37</sup> This is more than a trial. Rather, Comcast has begun to install equipment that will be used for the initial deployment of residential IP phone service in the Philadelphia market. The initial goal of this deployment is to scale the IP phone solution and

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<sup>37</sup> The press release regarding this announced is being filed with the Commission under separate cover in response to Request No. G.3 (see Comcast-FCC-G.3-0000452).

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to solve any issues that are identified as service is provided to an increasing number of customers. Comcast expects to be providing primary line IP phone service by the second quarter of 2003.

There will, of course, be operational challenges in deploying new IP phone technology on a large scale.<sup>38</sup> The Applicants expect that the operational expertise and resources AT&T Broadband has developed in providing circuit-switched telephony will significantly facilitate the offering of IP phone services by AT&T Comcast. This expertise ranges from developing effective marketing campaigns, to arranging interconnection with other carriers, to the myriad back office systems involved in offering cable phone service. Upon the closing of the proposed merger, the merged entity will be able to leverage this expertise in deploying cable telephony services in Comcast service areas and thus advance the Commission's goal of promoting local telephone competition.

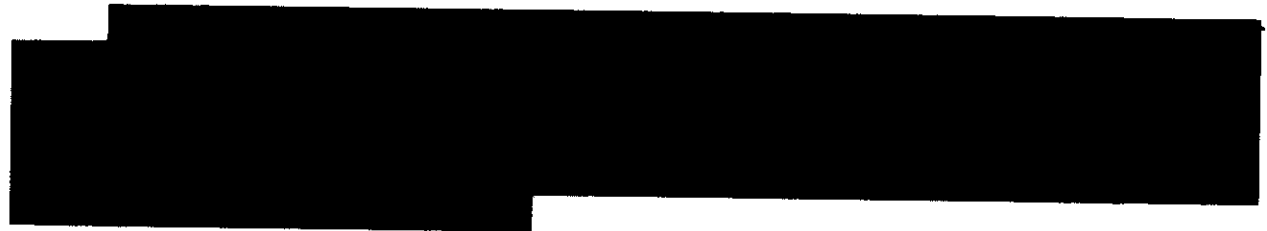
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<sup>38</sup> Application at 39-42; Reply Comments at 12-14; Pick Declaration ¶¶ 9-12; Braden Declaration ¶¶ 4-13.

**H. Benefits/Efficiencies to be Realized by Merger**

- H.1. The Applicants estimate that the proposed merger will achieve \$100-200 million in additional EBITDA within five years through the provision of new products and services. Please explain the assumptions and projections that underlie this estimate, including, if applicable, what new services and products it assumes will be deployed.**

As the parties explained in their Application (at 30-35), the merger will provide AT&T Comcast with a greater ability to develop and introduce new products and services to consumers, including, for example, accelerating the introduction of video-on-demand, ITV, and High Definition Television (“HDTV”), and deploying other services such as cable based home security systems, home networking systems and e-commerce services.



As acknowledged in the Application, the projections and estimates regarding the effects of AT&T Comcast’s provision of new products and services, as with other merger synergies, are inherently inexact. Moreover, in the course of calculating potential synergies and efficiencies, it was necessary for Comcast to rely upon the accuracy of the due diligence data it received and to make certain simplifying assumptions and estimates, which inevitably injected a level of uncertainty into the analysis. Within these constraints, the Applicants attempted to estimate the synergies and efficiencies likely to result from the merger as reasonably and accurately as possible based on the available data.

- H.2. A supporting declaration estimates that the proposed merger will achieve \$250-450 million in additional EBITDA through programming cost savings. Please explain the assumptions and projections that underlie this estimate, including, if applicable, a comparison of current programming rates and the programming rates that the Applicants expect AT&T Comcast to receive. Please submit documentation to support your response.**

As indicated in the Pick Declaration, following the merger, the Applicants believe that, where permissible under existing programming contracts, AT&T Comcast should be able to obtain the best rate of either AT&T Broadband or Comcast for AT&T Comcast’s entire service



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area with respect to most programming contracts. In most cases, this should probably be AT&T Broadband's rates, but in some instances it may be Comcast's rates depending upon the individual channel or bundle of channels covered by specific contracts. The cost savings associated with adopting the best rate currently being paid by either AT&T Broadband or Comcast should be realized by AT&T Comcast immediately after closing or very soon thereafter. Based upon experience with prior acquisitions or swaps of cable systems owned by AT&T Broadband and its affiliates, Comcast has found that the rates that AT&T Broadband currently pays for basic cable programming are, in the aggregate, generally lower than Comcast's current rates for the same group of programming channels. Furthermore, AT&T Comcast may also be able to reduce programming costs under some existing contracts because, with a larger subscriber base, additional volume discounts may be triggered. In addition, AT&T Comcast should also be able to save additional costs on a going forward basis as individual programming contracts come up for renewal based upon volume discounts.<sup>39</sup> [REDACTED]

[REDACTED] As a result of these calculations, Comcast concluded that – while programming costs are likely to continue to increase at a rate higher than inflation for the foreseeable future – AT&T Comcast should be able to reduce (but not eliminate) the rate of increase in the growth of programming costs.

[REDACTED]

As with other merger synergies, the Application acknowledged that the projections and estimates regarding the effects of programming cost savings are inherently inexact. Moreover, in the course of calculating potential synergies and efficiencies, it was necessary for Comcast to rely upon the accuracy of the due diligence data it received and to make certain simplifying assumptions and estimates, which inevitably injected a level of uncertainty into the analysis. Within these constraints, the Applicants attempted to estimate the synergies and efficiencies likely to result from the merger as reasonably and accurately as possible based on the available data.

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<sup>39</sup> Pick Declaration ¶¶ 19-20.

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**H.3. The Application states that the merger will accelerate deployment of ITV services.<sup>40</sup> How many of the cable systems subject to the merger are offering ITV services (as defined at Section F herein)? Please list the services and the locations where such services are being offered.**

**Comcast Response:** Comcast offers a number of services that could be characterized as ITV services as that term is defined in Section F of the Commission's Document and Information Request. These services include EPG and pay-per-view programming services that can be ordered directly through the customer's digital cable set-top box; both of these services are available on all Comcast cable systems that offer a digital service tier. Comcast's ITV services also include video-on-demand, which has been launched on a number of Comcast cable systems passing over three million homes. In addition, Comcast has entered into agreements with Wink Interactive Television ("Wink") and WorldGate to provide ITV services provided by these companies to certain Comcast cable systems.<sup>41</sup> Appended as Attachment 31 is a list of the Comcast cable systems that offer the ITV services described above.<sup>42</sup>

**AT&T Broadband Response:** AT&T Broadband also offers a number of ITV services, including EPG and pay-per-view services that can be ordered directly through the customer's remote control and cable set-top box. These services are available on all AT&T Broadband cable systems that offer a digital lineup. Attachment 32 provides a list of locations (by community served) in which AT&T Broadband offers a digital lineup.<sup>43</sup> AT&T Broadband also provides video-on-demand to approximately [REDACTED] customers in the Atlanta area and approximately [REDACTED] customers in the Los Angeles area.<sup>44</sup> AT&T Broadband is also conducting

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<sup>40</sup> Application at 33. [Footnote in original.]

<sup>41</sup> Wink's ITV service allows viewers to access program-related information by clicking their remote control. WorldGate's ITV service allows viewers to connect directly from the program or advertising they are watching on television to a related web site. As set forth in the Application (at 12) Comcast has also conducted ITV trials with Liberate Interactive Television in certain markets.

<sup>42</sup> The cable systems set forth in this list cover multiple franchise areas in some cases.

<sup>43</sup> Note that the Rocky Mountain market has been included in the data request, notwithstanding that it is anticipated that the systems in this market will be divested prior to the AT&T Broadband and Comcast merger. See Reply Comments at 25 n.71.

<sup>44</sup> Note that the Application (at 21) inadvertently stated that AT&T Broadband had also launched video-on-demand in the San Francisco and Pittsburgh markets. Although the press release cited in the Application stated that AT&T Broadband was planning to launch video-on-demand in those markets, it has not done so.

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a subscription video-on-demand trial involving Starz and Showtime in the Los Angeles market. In addition, AT&T Broadband and Worldgate are conducting an ITV trial in Tacoma, Washington, that is available to approximately [REDACTED] subscribers.<sup>45</sup> This offering provides content such as local weather and news, as well as e-mail and access to the Internet via the subscriber's television.

This response addresses AT&T Broadband's owned and operated and consolidated systems. AT&T Broadband does not have relevant information for systems in Parnassos Communications, L.P., CC VIII, L.L.C., Insight Midwest L.P., Kansas City Cable Partners, Texas Cable Partners, L.P., US Cable of Coastal - Texas, L.P., Midcontinent Communications, and Century - TCI California Communications, L.P.

**Please describe in detail how such deployment will be facilitated by the merger, and provide all projections, memoranda, analyses, etc. in your possession relating to how the merger will facilitate expansion of such services.**

Deploying ITV services, as well as digital video services and HDTV, involves substantial capital expenditures to develop, test, and deploy new technologies and facilities over existing cable plant. Raising the necessary capital can be difficult given the uncertainty regarding consumer demand for any new service and the current downturn in the financial markets. Deploying new broadband services consequently entails considerable business risks.

The merged entity will have greater resources and scale economies to overcome these risks. For example, the merger will enhance AT&T Broadband's ability to finance the capital expenditures necessary to deploy new services. As set forth in the Application (at 30-31) Comcast has a significantly stronger balance sheet than AT&T Broadband. The merged entity will have a first year combined debt to operating cash flow ratio that is significantly lower than AT&T Broadband's current ratio. This will make it easier to finance the remaining digital upgrades of AT&T Broadband systems. The Applicants are committed to completing these upgrades expeditiously, as they provide the platform for launching other new services, such as ITV and HDTV.

The merger will also create scale economies that should facilitate AT&T Comcast's deployment of these new services. The Applicants have estimated that they collectively will spend approximately \$5.5 billion in 2002 on capital expenditure items.<sup>46</sup> AT&T Comcast will continue to incur capital expenditures, and should be able to obtain lower prices for many of these capital items as a result of the increased scale of its purchases. This, as well as other cost

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<sup>45</sup> See Application at 22 n.34.

<sup>46</sup> *Id.* at 32.

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savings created by the merger,<sup>47</sup> will enhance the merged company's ability to expend the significant resources necessary to develop and deploy new services to customers. More generally, as set forth in the Application (at 33) the merger can be expected to foster more efficient use of infrastructure and the provisioning, repair, and maintenance involved in deploying new services. The merger should also allow the merged entity to defray more efficiently the large research, development and testing costs associated with new services. In addition, the scale economies created by the merger should help stimulate product development by technology vendors and equipment manufacturers that is critical to the successful deployment of new services such as HDTV and ITV.

Documents responsive to this request are being concurrently filed under separate cover with the Commission and bear bates numbers starting with the prefixes "AT&T Broadband-FCC-H.3" and "Comcast-FCC-H.3-H.5." In responding to this document request, the Applicants searched the relevant files of the following individuals: for AT&T – Ron Cooper, David Fellows, and Mike Huseby; for Comcast – Brian Roberts, Steve Burke, Robert Pick, Gregg Goldstein, Brad Dusto, and Mark Coblitz. AT&T and Comcast each believes that the individuals it has designated are the most likely to have custody of documents responsive to this request.

**H.4. The Application states that the merger will accelerate deployment of certain services, including digital video.<sup>48</sup> How many of the cable systems subject to the merger are offering a digital service tier to subscribers? Please list the locations where such services are being offered.**

**Comcast Reponse:** Comcast's digital cable service is available to over 95% of its customers. Attachment 31, which was included in the response to Request No. H.3, provides a list of the Comcast cable systems that offer a digital service tier.

**AT&T Broadband Response:**

[REDACTED]

As indicated in the Application (at 18), as of December 31, 2002, approximately 76% of AT&T Broadband's plant has been

<sup>47</sup> As described in the Application (at 31-32) the merger should result in costs savings such as the elimination of corporate overhead costs and improved operating margins. *See also* Pick Declaration ¶¶ 18-21, 25-28; Declaration of Howard A. Shelanski ¶ 44 (attached as Appendix 4 to the Reply Comments) ("Shelanski Declaration") (stating that efficiency gains from the merger may also be passed through to consumers in the form of "increased investment in network upgrades and the development and deployment of innovative services").

<sup>48</sup> *Id.* [Application] at 35. [Footnote in original.]

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upgraded to at least 550 MHz and 59% has been upgraded to at least 750 MHz. Attachment 32, which was included in the response to Request No. H.3, provides a list of locations (by community served) in which AT&T Broadband offers a digital lineup and the number of basic subscribers for each location.<sup>49</sup>

This response addresses AT&T Broadband's owned and operated and consolidated systems. AT&T Broadband does not have relevant information for systems in Parnassos Communications, L.P., CC VIII, L.L.C., Insight Midwest L.P., Kansas City Cable Partners, Texas Cable Partners, L.P., US Cable of Coastal - Texas, L.P., Midcontinent Communications, and Century - TCI California Communications, L.P.


**Please describe in detail how such deployment will be facilitated by the merger. Provide all projections, memoranda, analyses, etc. in your possession relating to how the merger will facilitate expansion of such services.**

*See* Response to Request No. H.3.

Documents responsive to this request are being concurrently filed under separate cover with the Commission and bear bates numbers starting with the prefixes "AT&T Broadband-FCC-H.4" and "Comcast-FCC-H.3-H.5." In responding to this document request, the Applicants searched the relevant files of the following individuals: for AT&T – Ron Cooper, David Fellows, and Mike Huseby; for Comcast – Brian Roberts, Steve Burke, Robert Pick, Gregg Goldstein, Brad Dusto, and Mark Coblitz. AT&T and Comcast each believes that the individuals it has designated are the most likely to have custody of documents responsive to this request.

**H.5. The Application states that the merger will accelerate deployment of certain services, including High Definition Television ("HDTV").<sup>50</sup> How many of the cable systems subject to the merger are offering HDTV to subscribers?**

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 Accordingly, a particular community may have more than one lineup; however, the subscriber counts in Attachment 32 are not duplicated but rather split between lineups. Also, as noted, the Rocky Mountain market has been included in the data request, notwithstanding that it is anticipated that the systems in this market will be divested prior to the AT&T Broadband and Comcast merger. *See* Reply Comments at 25 n.71.

<sup>50</sup> *Id.* [Application at 35]. [Footnote in original.]

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**Please list the programming being carried and the locations where such services are being offered.**

**Comcast Response:** Comcast currently offers HDTV service to more than 1.3 million customers in Pennsylvania, New Jersey, and Delaware.<sup>51</sup> Attachment 31, which was included in the response to Request No. H.3, provides a list of the Comcast cable systems that offer HDTV service. Comcast currently carries the HDTV programming of WPVI-TV, the ABC owned and operated broadcast television station in Philadelphia; WCAU-TV, the NBC owned and operated TV station in Philadelphia; HBO, and Showtime.

**AT&T Broadband Response:** AT&T Broadband currently offers WBBM-TV in HDTV format to approximately [REDACTED] customers in its Chicago area systems. AT&T Broadband has announced that it plans to launch additional HDTV services (including broadcast network affiliates, HBO, and Showtime) in the Chicago market later this year. The press release announcing the launch, including the specific Chicago area franchises to receive the additional HDTV services, is appended as Attachment 33.

This response addresses AT&T Broadband's owned and operated and consolidated systems. AT&T Broadband does not have relevant information for systems in Parnassos Communications, L.P., CC VIII, L.L.C., Insight Midwest L.P., Kansas City Cable Partners, Texas Cable Partners, L.P., US Cable of Coastal - Texas, L.P., Midcontinent Communications, and Century - TCI California Communications, L.P.

**Please describe in detail how such deployment will be facilitated by the merger. Provide all projections, memoranda, analyses, etc. in your possession relating to how the merger will facilitate expansion of such services.**

*See* Response to Request No. H.3.

Documents responsive to this request are being concurrently filed under separate cover with the Commission and bear bates numbers starting with the prefix "Comcast-FCC-H.3-H.5." In responding to this document request, the Applicants searched the relevant files of the following individuals: for AT&T – Ron Cooper, David Fellows, and Mike Huseby; for Comcast – Brian Roberts, Steve Burke, Robert Pick, Gregg Goldstein, Brad Dusto, and Mark Coblitz. AT&T and Comcast each believes that the individuals it has designated are the most likely to have custody of documents responsive to this request. AT&T Broadband's search produced no documents responsive to this request.

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<sup>51</sup> Comcast has announced that it will make HDTV service available in other major markets served by Comcast, beginning in the Washington Metro/Virginia region within the next several months.