

CableFAX Daily™

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What the Industry Reads First

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Sky Falling? In the Aftermath of Comcast-Netflix Interconnection Agreement

Take one **Comcast-Time Warner Cable** merger proposal, throw in the **FCC's** overturned net neutrality rules, and the news that Comcast and **Netflix** have a “mutually beneficial” interconnection agreement hits stratospheric levels. That quickly became the case Sun, when the companies confirmed that they have a deal, which they noted was the result of “many months” of collaborative work (read: this was in play before TWC or the DC Circuit’s decision). Much of Mon was devoted to reining folks back in. “None of this has anything whatsoever to do with net neutrality,” said a note from **MoffettNathanson**. “The concept of net neutrality refers to the non-discriminatory treatment of traffic within a given carrier’s network. The concept of peering relates only to the point at which different carriers’ networks interconnect and the volume of traffic that is exchanged. Contrary to what has been reported, the deal has nothing to do with paying for speed or network access; rather it is simply a commercial payment to Comcast to open up additional ports to allow traffic to flow in excess of the settlement-free ratio.” This is an example of an ISP working outside Netflix’s Open Connect Content Delivery Network. Recall that in Open Connect, Netflix puts its servers at an ISP’s data center. In this agreement, however, 3rd party data centers are used and rather than paying **Cogent** to hand off the traffic to Comcast, presumably Netflix is doing it directly (though it still could be using Cogent). “In reality, the agreement between Comcast and Netflix is not especially momentous. Edge providers like Comcast commonly receive payments from content providers like **Google** and **Microsoft**. After all, that’s what networks do; they charge for transport,” said MoffettNathanson. Case in point, **Verizon** CEO *Lowell McAdam* told **CNBC** Mon that he expects to reach a similar agreement with Netflix soon, with the 2 companies talking over the past year. *Dan Rayburn*, a **Frost & Sullivan** analyst and evp at **StreamingMedia.com**, criticized several press reports. We recommend you read his blog, but here’s a snippet: “Today’s news is very simple to understand. Netflix decided it made sense to pay Comcast for every port they use to connect to Comcast’s network, like many other content owners and network providers have done. This is how the Internet works, and it’s not about providing better access for one content owner over another, it simply comes down to Netflix making a business decision that it makes sense for them to deliver their content directly to Comcast, instead of through a third party.” So, does this solve everything? Hardly. See the first sentence of this story. **Public Knowledge**: “From what information is public, it appears that the largest ISPs are demanding payment from networks that deliver content and

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services that residential broadband consumers demand. Because the large residential ISPs themselves are the ones keeping the terms of their deals secret, it raises the question of whether they have something to hide.” **Free Press:** “This agreement is in no sense the outcome of a free market. This isn’t voluntary. This is Comcast having Netflix over a barrel, and striking a deal only once it became clear that degrading Netflix could derail their merger with Time Warner Cable.” Buckle up...

Electronic Sell-Through: On Fri, **Verizon** launched electronic sell-through of individual TV eps as well as full past seasons for FiOS TV customers. Right now, there are about 50 TV series available, including **CBS’** “Big Bang Theory,” **AMC’s** “Mad Men” and **Showtime’s** “Nurse Jackie.” The number of series offered is expected to grow. Individual shows cost a \$1.99 in most instances, with full seasons ranging in price (some as low as \$20, others, like HD eps of “Veronica Mars,” as high as \$45). As with other Verizon content purchases, such as movies, once you buy it, it’s yours to keep forever (even if you leave FiOS service). It can be played across multiple devices and is available through a FiOS set-top. **Comcast** began electronic sell-through of movies and TV shows in Nov, heavily promoting **Universal’s** “Despicable Me 2.” Verizon offered movies to own before Comcast or any other MVPD, but this is its first endeavor at selling TV series.

WWE: WWE’s OTT network launch Tues morning didn’t go off without a hitch. Some unhappy folks unable to subscribe and taking to social media to complain. Others said they couldn’t get the net to stream after subscribing. “Major League Baseball Advanced Media (MLBAM), WWE’s technology partner, was overwhelmed and their systems have been unable to process most orders since 9 am due to demand for WWE Network. MLBAM has been working aggressively to resolve this issue,” WWE said in a statement Tues afternoon. WWE’s 1-week free trial offer may have added to the traffic jam.

Opening Day: Tues is launch day for the **Dodgers** channel, officially named **Time Warner Cable SportsNet LA**, though it seems to be going mainly by the shorter moniker SportsNet LA. Thus far, only Time Warner Cable and **Bright House** (for which TWC negotiates programming deals) have signed on to carry the net. The channel will be carried in TWC’s Southern CA systems on channels 431 (HD) and 249 (SD). Bright House will offer the net in Bakersfield on Tues. Bright House’s Orlando, Tampa, Birmingham and Indianapolis service areas will receive it in March, and its Detroit service area gets it in April. Some spring training games start this week, but don’t look for the carriage heat to ratchet up until closer to MLB’s Opening Day. A website has launched for fans to push their MVPDs to launch the net (www.ineedmydodgers.com).

In the Courts: Broadcasters, including the Big 4, **Univision** and **CBS**, filed their petitioners brief at the Supreme Court outlining all these problems with **Aereo**. SCOTUS is slated to hear oral arguments in the case Apr 22. “Aereo has built a business out of retransmitting broadcast television to members of the public without seeking authorization from or paying compensation to copyright holders. That is precisely the kind of unauthorized exploitation of copyrighted content that Congress enacted the transmit clause to prevent,” the broadcasters said, arguing that Aereo derives its competitive advantage in large part from the fact that competitors pay for retransmission consent. -- The Supreme Court opted not to hear **Tennis Channel’s** request for review of a DC Circuit decision that found **Comcast** didn’t discriminate against Tennis on the basis of affiliation. That May ruling threw out the **FCC’s** decision that the operator had violated program carriage rules.

M&A: **Rovi** agreed to acquire **Veveo**, which provides intuitive and personalized entertainment discovery services, for \$62mln in cash at closing and up to \$7mln in additional cash payments based on achievement of certain agreed-upon milestones. Under the deal, Rovi will combine its search and recommendation platform and metadata with Veveo’s personalization and contextual search tools to create an entertainment discovery service. The deal is expected to close shortly.

There’s Something about Austin: Not only is there a gigabit fiber race going on in the TX city, but Austin is also set to become the home of the latest **Aereo** launch on Mar 3, making Austin the 4th TX city to receive Aereo.

On the Hill: After nearly 60 years in the House (serving under 11 presidents), **John Dingell** announced he won’t run for re-election this fall. “I have 10 months more in Congress, and I’m not going to waste a minute. There’s still a lot to be done and a lot I want to do,” the former House Commerce chmn said during his annual “State of the District” speech Mon. Dingell also expressed disappointment in what Congress has become. “I am hopeful that this fever breaks at some point, and Congress goes back to what it should be: the House of the People, standing up for the average man and woman.”

Seeing Starz: **ISI Media** increased its price target on **Starz** to \$33 from \$30 following Fri’s solid 4Q earnings report. “The core Starz Networks business remains stable, with original programming supporting another tick up in subscribers,” the analysts said. They also were happy with \$111mln in share buyback activity in the Q, more than 2x their estimate. Starz beat

BUSINESS & FINANCE

Wall St estimates with 4Q earnings of \$72.5mln vs \$48.2mln a year-ago. Rev dipped 2% to \$414.7mln, while adjusted OIBDA increased 16% to \$117.2mln. Subscriptions rose to 22mln in the Q, up 5mln or 1% since Dec 31, '12, while Encore subscriptions ended the year at 34.9mln, up slightly from the end of '12.

Honors: **BET** cleaned up at the **NAACP's** Image Awards Sat, taking home the most wins in the TV category. **BET's** 7 wins ranged from "Real Husbands of Hollywood" (outstanding comedy series) to "Being Mary Jane" (outstanding movie/mini/dramatic special") *Kevin Hart* and *Gabrielle Union* both earned acting honors. Other wins: **Showtime's** *Morris Chestnut* for his supporting role in "Nurse Jackie," *Idris Elba* for his role in **BBC America's** "Luther," **OWN's** "Iyanla Fix My Life," **HBO's** "Wynton Marsalis: A Young Arts Master Class," and *China Anne McClain* for **Disney's** "A.N.T. Farm."

People: **Weather Channel** parent **The Weather Company** no longer separates its cable and digital sales teams, creating 2 regional vp roles in its NY office that will each lead a team focused on TV, digital, mobile, programmatic, WeatherFX, addressable TV/audience targeting and other channels. As part of this realignment, *Mark Mooney's* role as vp, East Coast cable sales, has expanded to vp, East Coast sales. The company also has named *Alicia Muntzner* vp of East Coast sales. Muntzner joins from **NBCU**.

CableFAX Daily Stockwatch

Company	02/24 Close	1-Day Ch	Company	02/24 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
21ST CENTURY FOX:	33.17	0.23	GOOGLE:	1212.51	8.72
DIRECTV:	75.12	0.10	HARMONIC:	6.49	(0.04)
DISH:	57.37	(0.55)	INTEL:	24.63	0.21
DISNEY:	80.73	0.60	JDSU:	13.40	(0.02)
GE:	25.29	0.35	LEVEL 3:	38.79	0.42
MSOS					
CABLEVISION:	16.41	0.31	MICROSOFT:	37.69	(0.29)
CHARTER:	123.58	(1.5)	NIELSEN:	46.71	0.40
COMCAST:	51.15	0.10	RENTRAK:	65.80	UNCH
COMCAST SPCL:	49.41	0.23	SEACHANGE:	12.27	0.20
GCI:	10.07	(0.08)	SONY:	17.40	0.28
LIBERTY GLOBAL:	86.72	0.16	SPRINT NEXTEL:	8.40	0.11
LIBERTY INT:	29.45	(0.42)	TIVO:	13.02	0.30
SHAW COMM:	22.82	0.04	UNIVERSAL ELEC:	42.78	2.66
TIME WARNER CABLE:	139.16	(1.38)	VONAGE:	4.59	0.05
PROGRAMMING					
AMC NETWORKS:	70.07	0.66	YAHOO:	37.42	0.13
CBS:	66.46	0.40	TELCOS		
CROWN:	3.36	(0.02)	AT&T:	32.47	(0.33)
DISCOVERY:	82.46	(0.35)	VERIZON:	46.23	(1.04)
GRUPO TELEVISA:	29.31	0.46	MARKET INDICES		
HSN:	57.09	(0.08)	DOW:	16207.14	103.84
INTERACTIVE CORP:	74.16	(0.2)	NASDAQ:	4292.97	29.56
LIONSGATE:	30.95	(0.02)	S&P 500:	1847.61	11.36
MADISON SQUARE GARDEN:	58.56	0.05			
SCRIPPS INT:	81.07	0.37			
STARZ:	32.82	1.67			
TIME WARNER:	65.01	0.28			
VALUEVISION:	5.83	0.04			
VIACOM:	87.29	0.31			
WWE:	23.99	(0.68)			
TECHNOLOGY					
ADVANTAGE:	2.88	(0.03)			
ALCATEL LUCENT:	4.29	0.03			
AMDOCS:	44.33	(0.21)			
AMPHENOL:	88.91	0.75			
AOL:	43.70	0.06			
APPLE:	527.55	2.30			
ARRIS GROUP:	29.69	(0.04)			
AVID TECH:	4.93	(1.99)			
BLNDER TONGUE:	0.97	0.03			
BROADCOM:	30.74	(0.02)			
CISCO:	22.12	(0.01)			
CONCURRENT:	8.59	(0.08)			
CONVERGYS:	20.18	0.18			
CSG SYSTEMS:	27.31	0.69			
ECHOSTAR:	50.00	3.51			

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Tiered vs Unlimited

Tiered, or usage-based pricing plans, have been around for a while, but some small and mid-sized cable ops only started offering them last year. So far, just a small number of customers are affected, speakers said at the **NCTC Winter Conference** last week. Only 1% of **Buckeye Cablevision's** subscribers exceeded their monthly data allowance in the past year. Data traffic was flat until Nov, when the company saw an uptick with more customers exceeding their monthly allowance, said evp/CTO *Joe Jensen*. "There is a ramp-up happening now," he said. As for service provider **Armstrong**, which started offering tiered plans last May, an average of 3% of its customers have exceeded their monthly cap, said *Jeff Ross*, pres. And due to the limited number of customers impacted, tiered pricing isn't a main revenue generator yet, according to Ross. "It isn't about generating more revenues... It's more about balancing capital investment with meeting bandwidth demand now," he said. But ISPs can create new revenue streams by working with content providers to waive the data limits on specific streams, *Chris Stocker*, dir of solutions engineering at **Sandvine** said. **Conway Corporation**, an Arkansas-based service provider, is sticking to its unlimited plans for now, though the company has seen rapid Internet traffic growth, said CTO *Jason Hansen*. He said an average of 50% and as much as 70% of traffic on Conway's network is video, and more than 50% of the video traffic is **Netflix**-related. To get the network ready for increasing bandwidth demand, Conway seeks to move as many subscribers as possible from DOCSIS 2.0 to DOCSIS 3.0, said Hansen. DOCSIS 3.0 allows for a higher maximum throughput by using multiple channels simultaneously for download/upload, while DOCSIS 2.0 doesn't. And with multiplatform and the expansion of advanced TV technologies like 4K, ISPs increasingly must track and categorize traffic, several speakers said. Conway uses Deep Packet Inspection to monitor and identify specific data on the network, Hansen said. Finding ways to improve network efficiency is also crucial: Armstrong uses caching technology that allows faster delivery of OTT video

and would save up to 30% on core, transit and backhaul bandwidth required, Ross said. The bottom line is "none of us has unlimited capacity... You want to be able to separate services and track them so when you are ready to do something, talk to your legal department first—you have the data to do so," said *Scott Helms*, tech vp with **Zcorum**, which provides diagnostics and support services for ISPs.

NCTC Notebook: The list of operators that have licensed the Reference Design Kit, an integrated software bundle that enables delivery of IP video, has grown to 15, *Jason Briggs*, sr dir of business development at **Comcast** said. Comcast and **Time Warner Cable** formed **RDK Management** last year. "We are looking at the vendor community so that independent operators have a one-stop shop for RDK," Briggs said. That means working with the vendors to enable RDK-ready equipment, he said. The key is to provide as much flexibility as possible, he said. "We build the foundation but let operators choose what they want to build upon that platform," he told us. "We are trying not to dictate how service providers differentiate their IP video services," he said. -- Speakers on an advanced video panel offered advice for independent operators on IPTV deployment. With the expansion of connected devices, it's important for service providers to "offer the whole spectrum of service, both OTT and managed," said *John Vlontzos*, deputy dir of research at Greece operator **IntraCom**. And though the quality of service from many OTT video providers is good, "it's still not the same as regular cable connections through a set-top," said *Charles Cheevers*, CTO of CPE solutions at **Arris**. "So when you build OTT infrastructure, you need that extra little bit of quality. You don't want to just throw an OTT service out there," he said. As operators look to transition into an all-IP infrastructure, they can start with hybrid systems, which combine legacy and IP infrastructure, and then gradually convert their systems to IP, *Tim O'Loughlin*, pres of **Pace Americas** said. "A lot of operators have looked at it and said they can't do the big jump" overnight, he said. The reality is IPTV and traditional set-top services will co-exist for a long time, Vlontzos said.

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