

Before the
Federal Communications Commission
Washington, DC 20554
Public Hearing on Early Termination Fees

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TESTIMONY

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DIRECTV

Mr. Chairman and Distinguished Commissioners:

Thank you for the opportunity to appear here today to address DIRECTV's policies regarding Early Termination Fees, or as we call them, Early Cancellation Fees ("ECFs"). I am Senior Vice President, Controller & Chief Accounting Officer for DIRECTV with responsibility for our financial and accounting policies.

DIRECTV is proud to be the nation's leading satellite television service provider with approximately 17 million customers in the United States. We provide exciting content through superior technologies, all with industry-leading customer service.

In the fiercely competitive video market, a high quality customer experience is a critical component of DIRECTV's business. We are extremely proud of our customer-friendly policies, products and services and we consistently score higher in customer satisfaction than any other major cable or satellite TV company. This year, DIRECTV received the highest scores for customer satisfaction among all cable and satellite TV providers on the American Customer Satisfaction Index.¹ This marks the eighth straight year that DIRECTV outscored its cable competitors. DIRECTV has also received the highest ranking four times in J.D. Power and Associates' national customer satisfaction studies and, in 2007, was rated "Highest in Customer Satisfaction Among Satellite/Cable TV Subscribers" for 43 states. Moreover, we continue to have one of the lowest levels of customer churn in the industry. In short, based on all of the available data, DIRECTV customers are happy with their service.

DIRECTV is also an integral part of the Commission's video competition policy. Our competitive success has been driven in part by

¹ The American Customer Satisfaction Index surveys customers on issues such as quality, value, customer loyalty and retention.

the flexibility we have in creating a compelling value proposition. When switching from cable to DBS, consumers are generally not inclined to spend hundreds of dollars in upfront equipment and installation costs that are necessary to switch providers. Ten years ago, Commissioner Gloria Tristani highlighted this issue and noted that cable's dominance of the video market was due in part to the "up front costs associated with DBS [which] are substantial and place it out of reach for many Americans." Fast forward to today, and the DBS industry has been able to craft pricing options that can lower the customers' upfront costs to zero, with the goal of encouraging more consumers to make the switch to satellite. And it has worked – DBS's ability to jump from 5.1 million subscribers at the time of Commissioner Tristani's comments to over 30 million today underscores the pro-consumer side of today's DBS pricing options.

Against this backdrop, DIRECTV designs its consumer offering to maximize choice. Among other options, consumers can currently choose to pay full retail price for equipment and installation with no ECF, or they can opt for free equipment and installation with either an

18 or 24 month commitment and a pro-rated ECF. When presented with this choice, consumers have given their answer – they overwhelmingly prefer no upfront payment. Clearly, our customers believe our ECF policy represents a significant value.

Moreover, DIRECTV's ECF is designed to be consumer friendly. Our upfront investment in a new customer is approximately \$700, yet the ECF is substantially lower than this amount: \$360 for an 18 month commitment with standard definition equipment; or \$480 for a 24 month commitment with an HD receiver or DVR.

DIRECTV has always prorated the ECF, reducing it proportionately each month down to zero by the end of the commitment term. For example, if you cancel after 17 months of an 18 month commitment, you will only be charged \$20. Once the commitment period has passed, customers can continue service on a month-to-month basis without being subject to the ECF. And, on average, most customers do continue DIRECTV service well after the commitment period.

Our pricing approach reflects the distinct costs associated with DBS service, as compared to other industries. Satellite television service requires an antenna mounted at the home, receivers installed where the customer will watch television and the associated wiring. DIRECTV must send a technician to complete this work and ensure that the equipment is functioning and receiving a signal. Installations for DIRECTV's advanced products are more difficult, and thus more costly.

Today, DIRECTV's average investment in each new customer is approximately \$700, not including additional savings that a customer may receive from other promotional offers. Even though the ECF does not cover DIRECTV's full costs, it helps mitigate the risk of not recovering our investment.

Based on our experience, DIRECTV does not believe there is any need for Commission intervention in the competitive pricing plans for DBS. An ETF-only regulation would fail to address other pricing models in the industry that also shape consumer choice, such as cable's differential pricing for bundles of services as opposed to stand alone offerings.

DIRECTV's ECF is critical to its competitiveness with other video providers. It enables DIRECTV to reduce upfront costs to consumers, encouraging consumers to switch to our offering. Any effort to regulate our ECFs would have a negative impact on our competitive pricing models, shifting more costs to consumers and harming competition. Instead, we hope to continue to build on our success in providing consumer choice and robust competition to cable, and uphold the high standards of customer satisfaction that have become a DIRECTV hallmark.

Thank you for your time and consideration.