

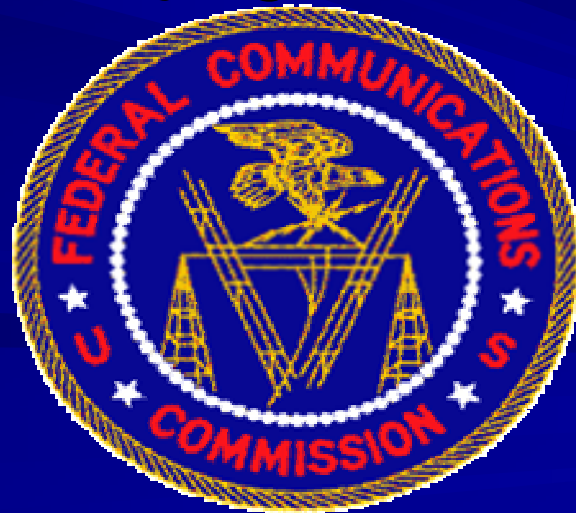
*Cable Television in the United States:
Trends and Challenges*

Commissioner Kevin J. Martin

Federal Communications Commission

August 26, 2004

Beijing, China



The Federal Communications Commission

- Created in 1934
- Regulates Electronic Communications
 - Telephony (interstate and international)
 - Broadcasting
 - Cable Television
 - Wireless Communications
 - Satellite Communications
- Independent Agency
- Open & Transparent Process



Overview of Cable in the U.S.

- 9,300 cable systems serving more than 73 million subscribers
- Cable is available to 95% of American homes
- Most systems offer more than 54 channels
- Many systems offer more than 100 channels
- Systems offer:
 - Broadcast Signals, Additional Channels
 - High-Speed Internet Access
 - Telephone Service

U.S. Cable TV Regulation

- Authority shared by FCC and Local Franchise Authorities (LFAs)
- LFAs issue franchises pursuant to federal rules
- LFAs adopt and enforce customer service standards pursuant to federal rules
- LFAs regulate some rates pursuant to federal rules

Cable Operator Revenue (2003) Subscriber vs. Advertising



- \$51.3 billion in revenues
- Approximately \$3 billion in advertising revenue

Cable Programming Tiers

- **Basic tier:** broadcast channels, public, educational and governmental channels, and leased access channels; typically 10-12 channels
- **Expanded basic tier:** includes many popular and niche program networks and typically has 20-40 channels
- **Premium networks:** a la carte channels such as Starz! or HBO, which offer uncut theatrical and original movies, events, or series programming
- **Digital tier:** digital programming not included in the expanded basic tier

New Services

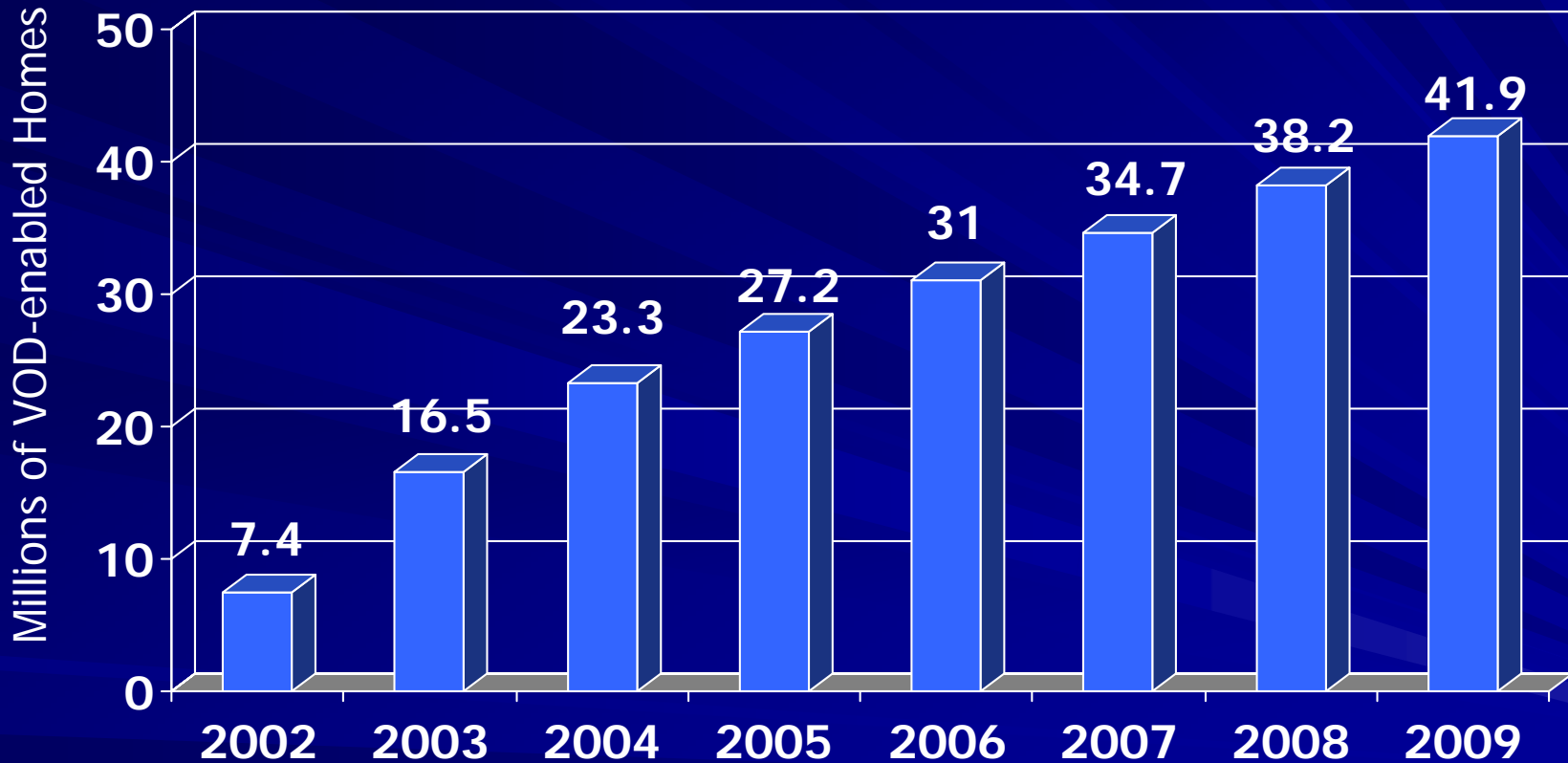
■ ***Video-on-demand***

- Programming offered on a per-program basis
- Allows access to a “library” of content
- Customers can choose to watch a program whenever they want and can pause, rewind, etc.

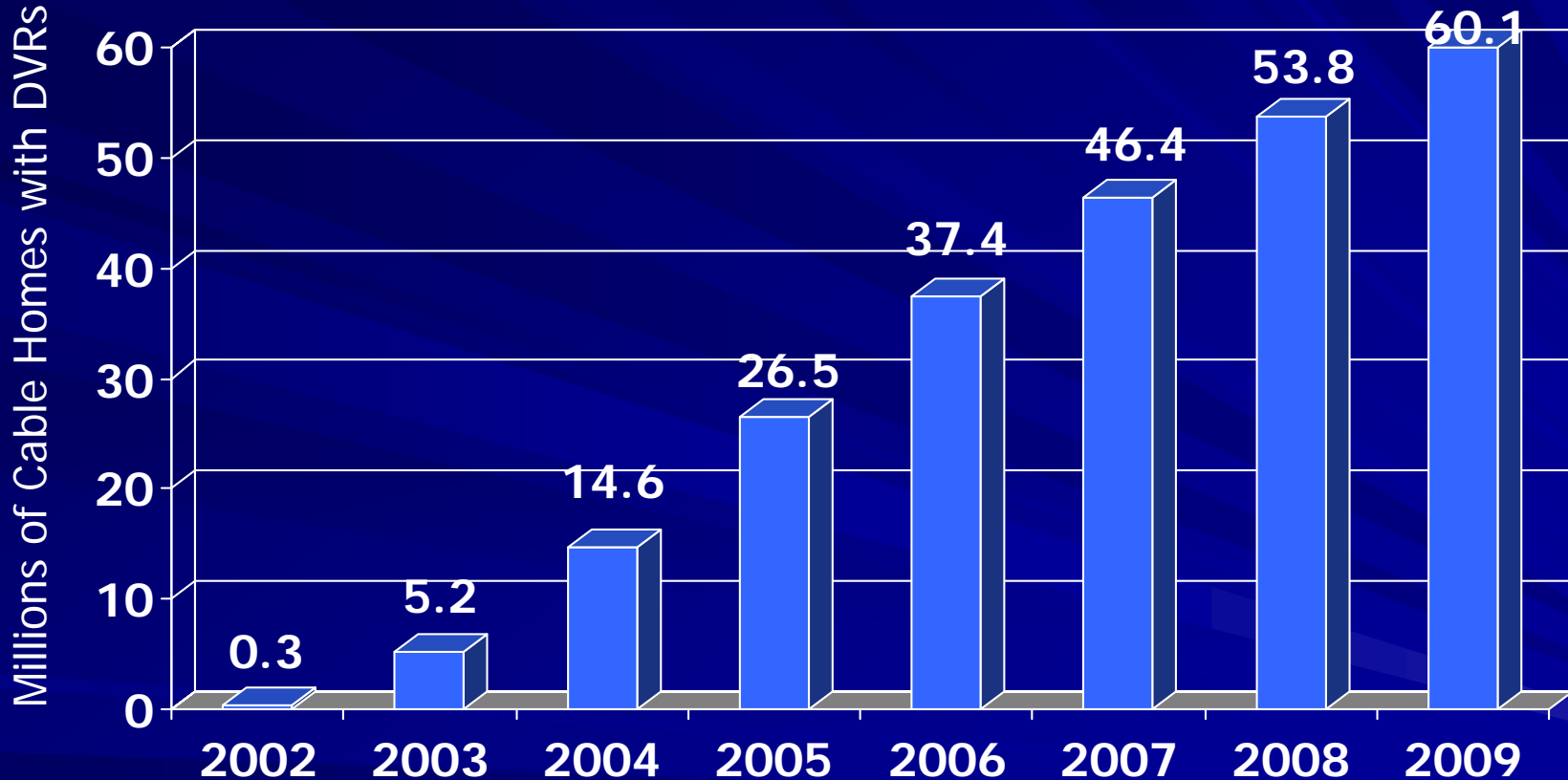
■ ***Digital Video Recorders (DVRs)***

- Contain a hard drive and recording capability
- Customers can store programs for later viewing
- Allow for easy pausing, rewinding, etc.

Projected Growth of Video on Demand



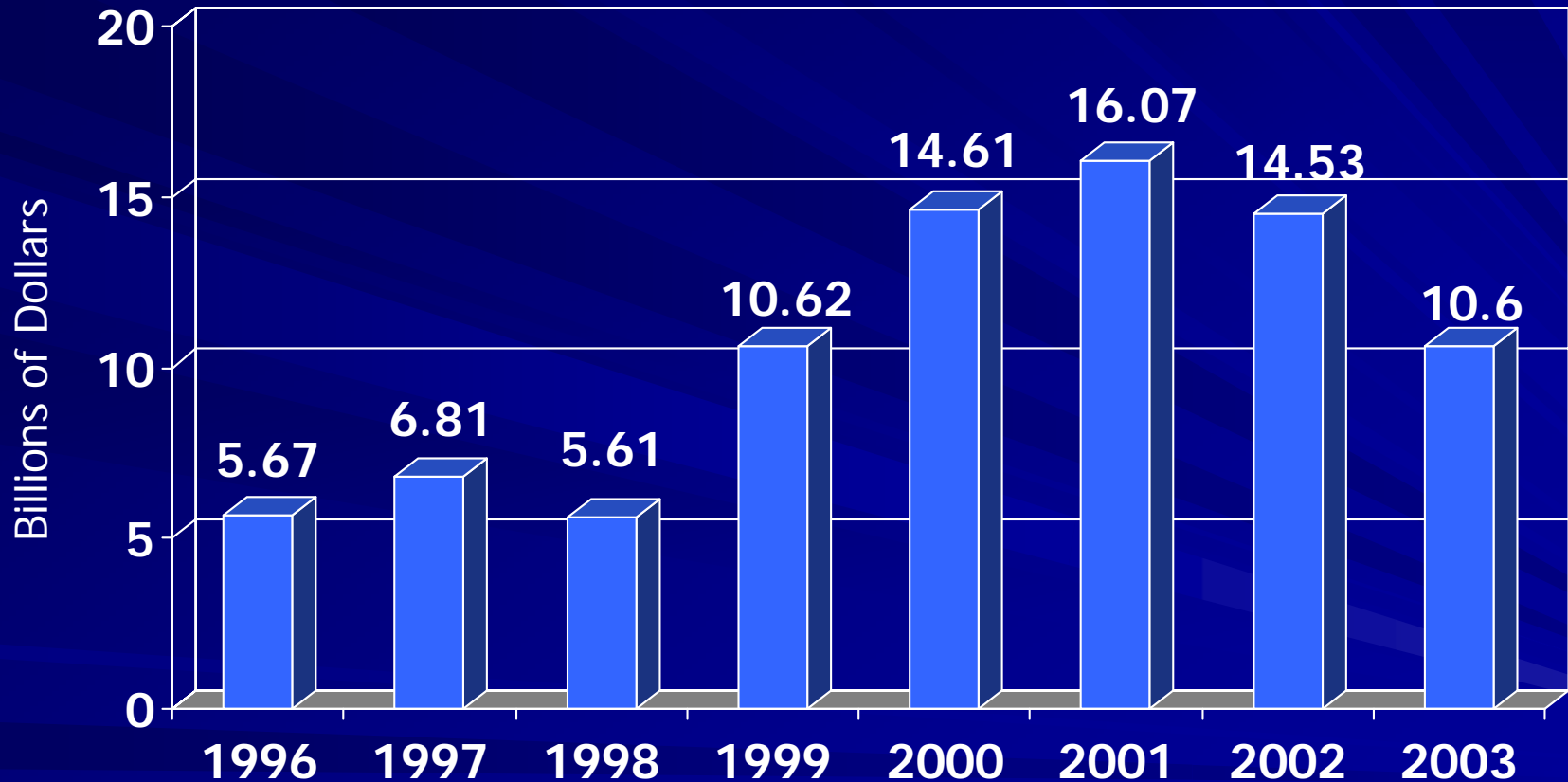
Projected Growth of Digital Video Recorders



Price Regulation

- Before 1996, all cable channels except premium, pay-per-channel were price regulated
- Since 1996, end-user fees have been substantially deregulated
- Only basic tier is subject to price regulation
- Other tiers, pay-per-channel, and pay-per-program services are not price regulated
- Even the basic tier is not price regulated if cable system is subject to competition

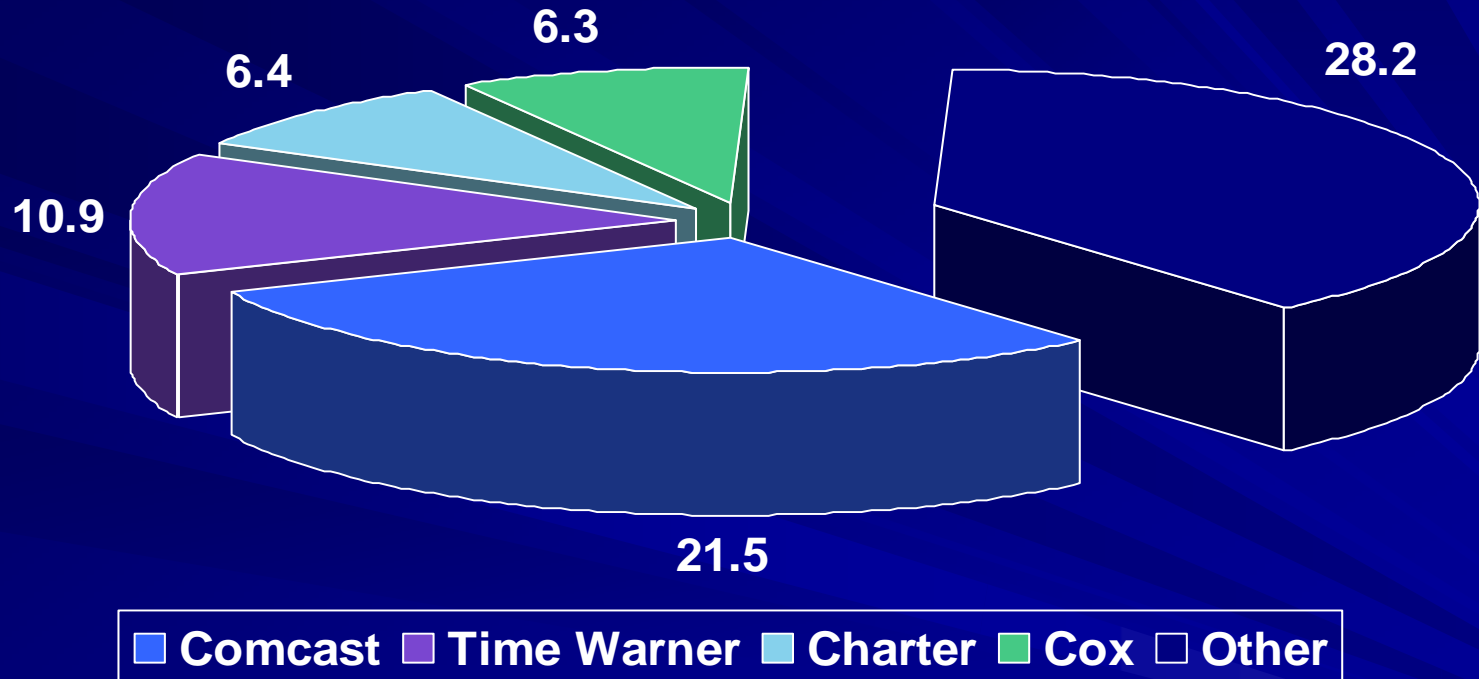
US Cable Industry Infrastructure Expenditures



Other Economic Regulations

- Regulation of mergers and acquisitions
 - Transfer of cable licenses require FCC approval
 - FCC uses this authority to protect consumers
- Congress asked FCC to impose both horizontal and vertical limits
 - FCC prohibited any one cable provider from serving more than 30% of nation's video subscribers
 - FCC prohibited cable providers from using more than 30 channels to carry programming in which they have a financial interest
 - These rules have been struck down by courts

Subscribers Served by 4 Largest Cable Providers (in millions)



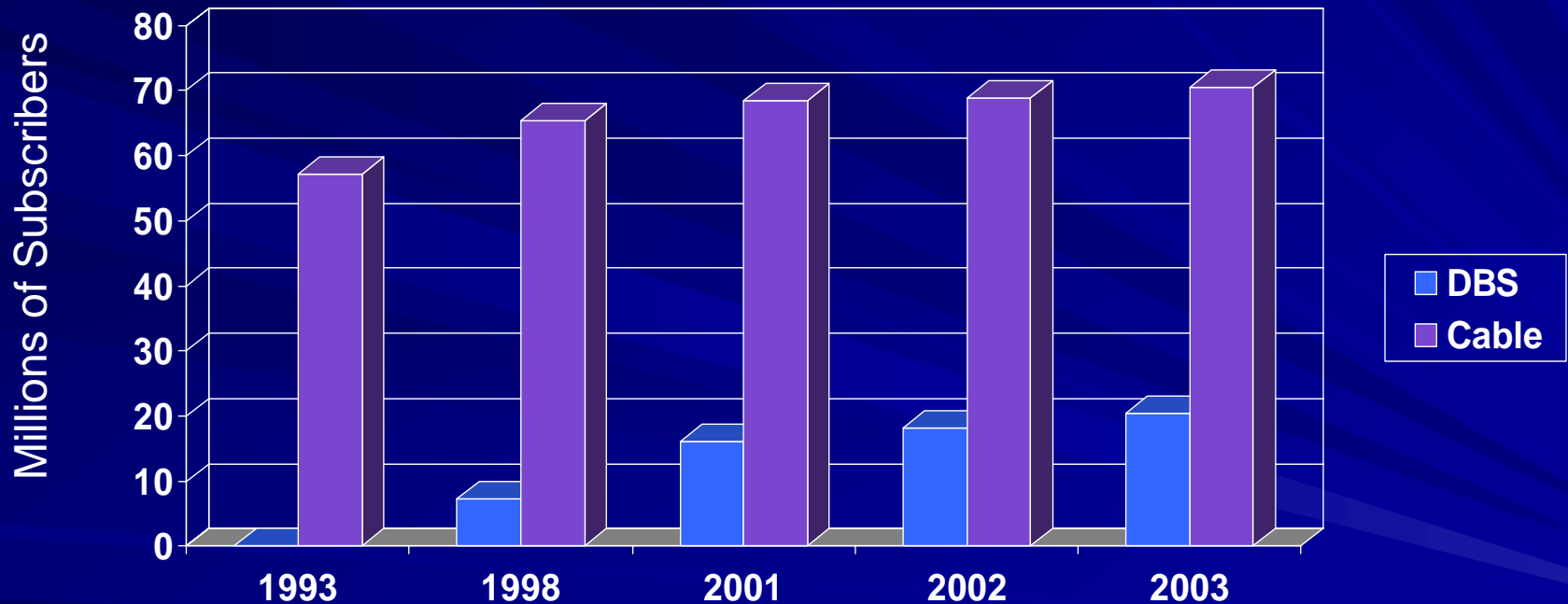
60 companies serve 97% of all U.S. cable subscribers

Remaining 3% are served by cable operators with fewer than 10,000 subscribers each

Allocation of Cable Capacity

- **Must-Carry:** All local commercial broadcast stations have the right to be carried on cable
- **Noncommercial Educational (NCE) stations:**
 - Every cable system must carry at least one NCE
 - Cable systems with more than 36 channels may be required to carry all local NCEs
 - If there is no local NCE, cable system must import distant signal

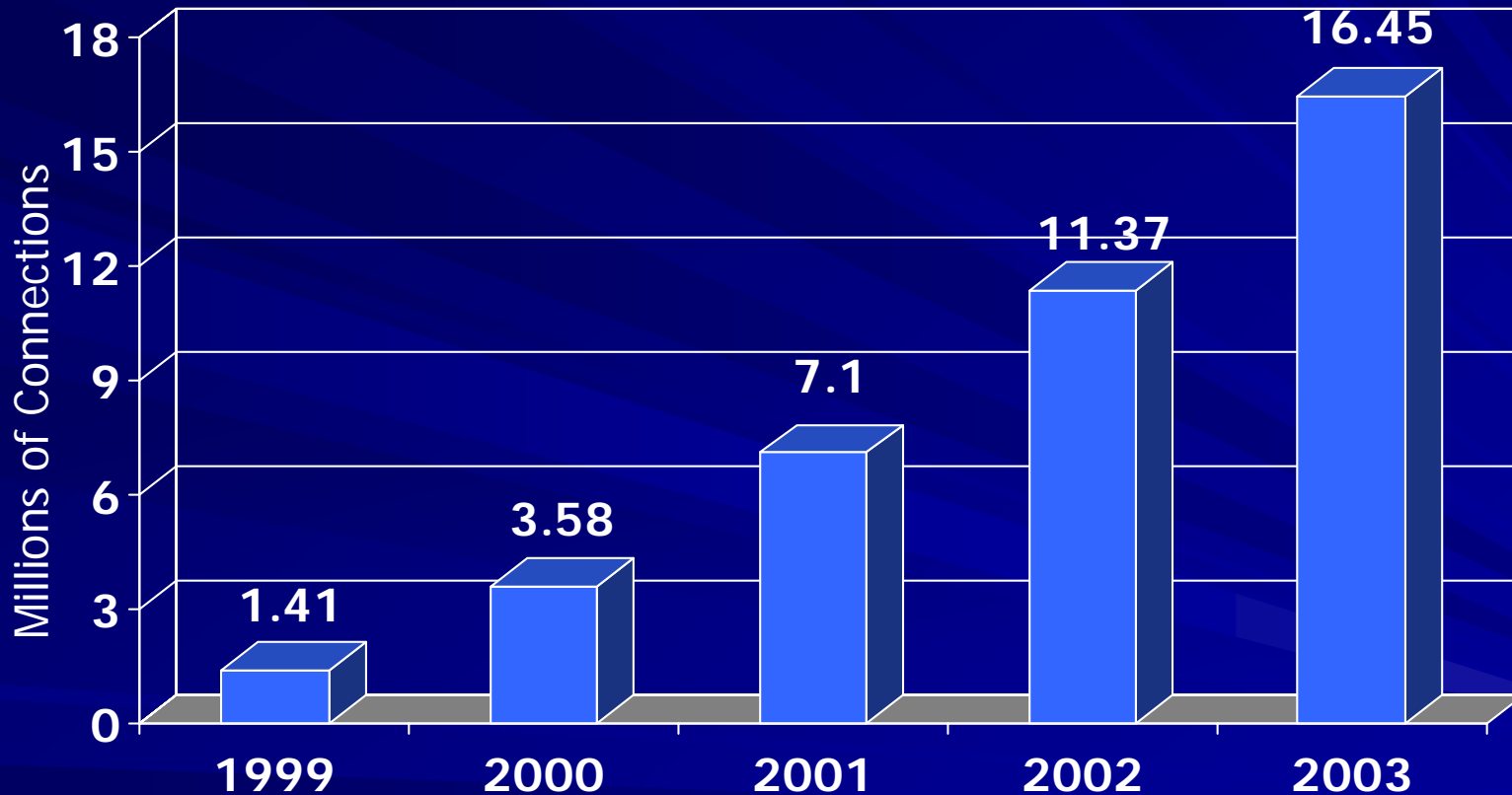
Cable vs. DBS Penetration



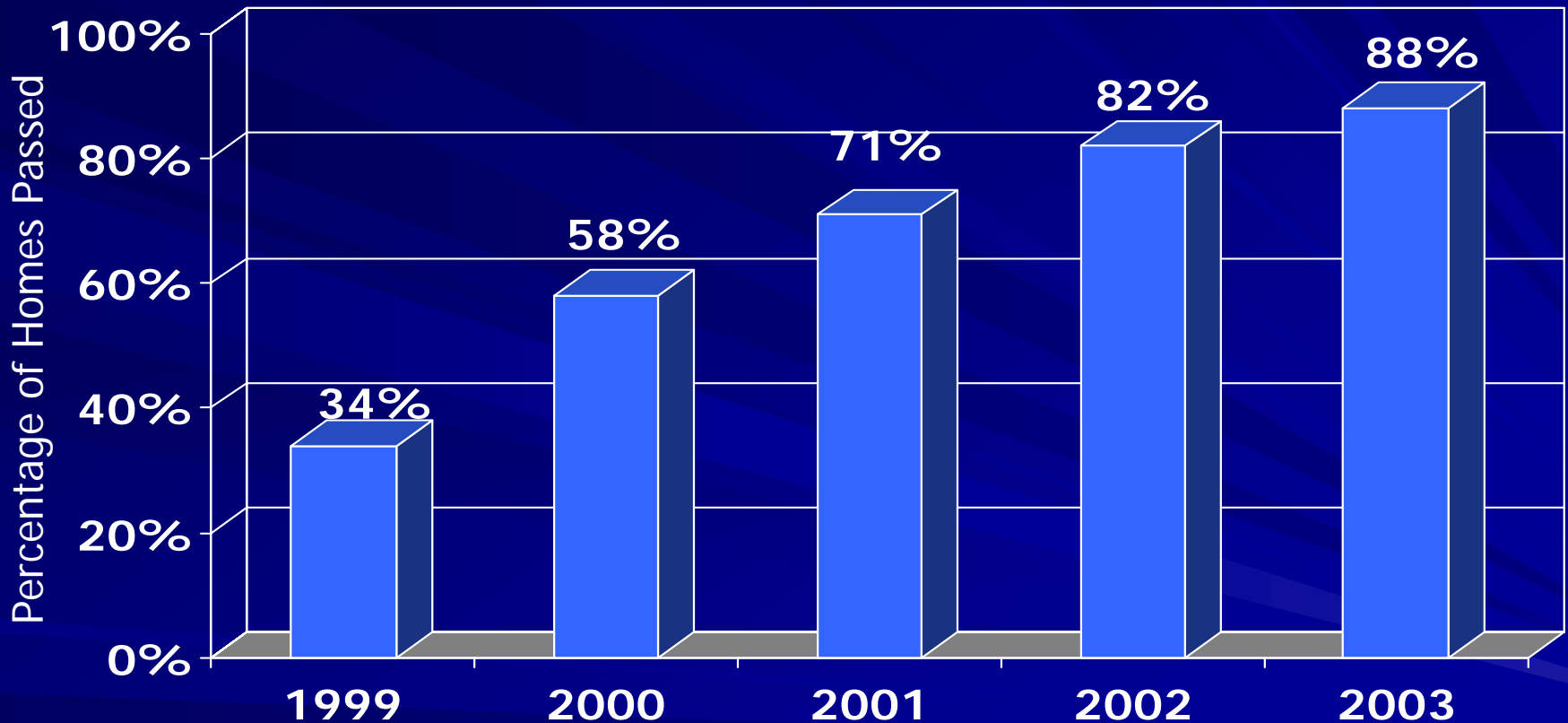
Program Access Requirements

- Statute applies only to cable
- Requires content providers affiliated with cable systems to provide their competitors with access to their content
- FCC has applied similar requirements to DBS through merger review

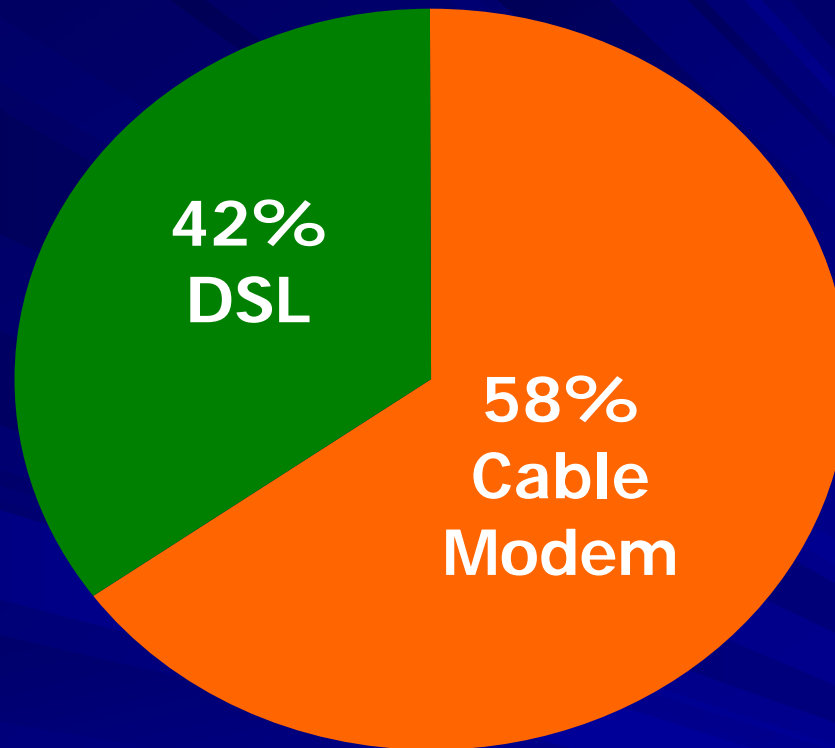
Cable Modem Growth in the U.S.



Cable Broadband Availability

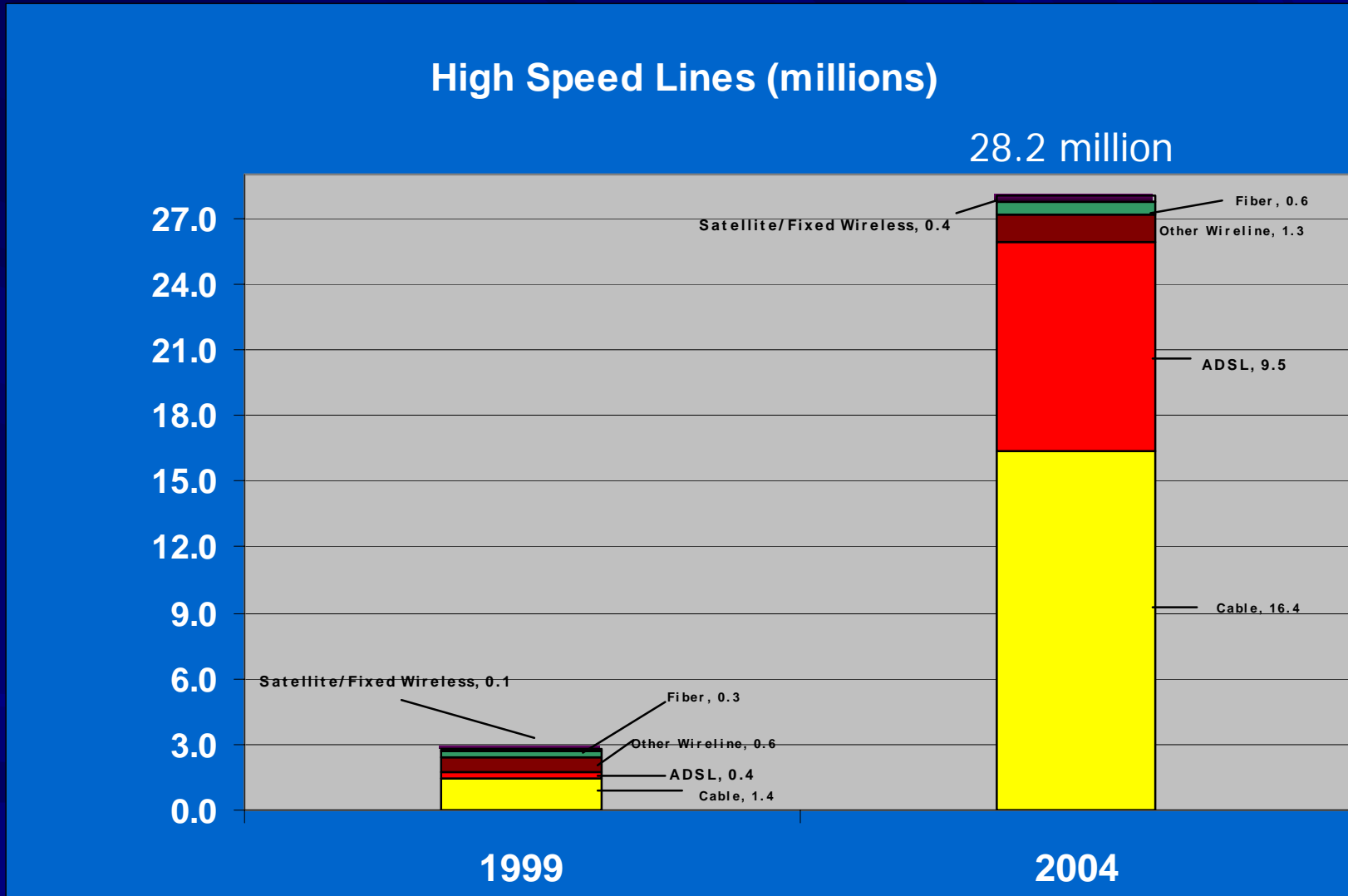


Cable vs. DSL broadband subscribers in the U.S.



28.2 million total broadband connections in U.S. as of 2003
9.5 million DSL connections; 16.4 million cable modem connections;
2.3 million other connections (e.g. fiber, wireless, or satellite)

High Speed Line Growth 1999-2004



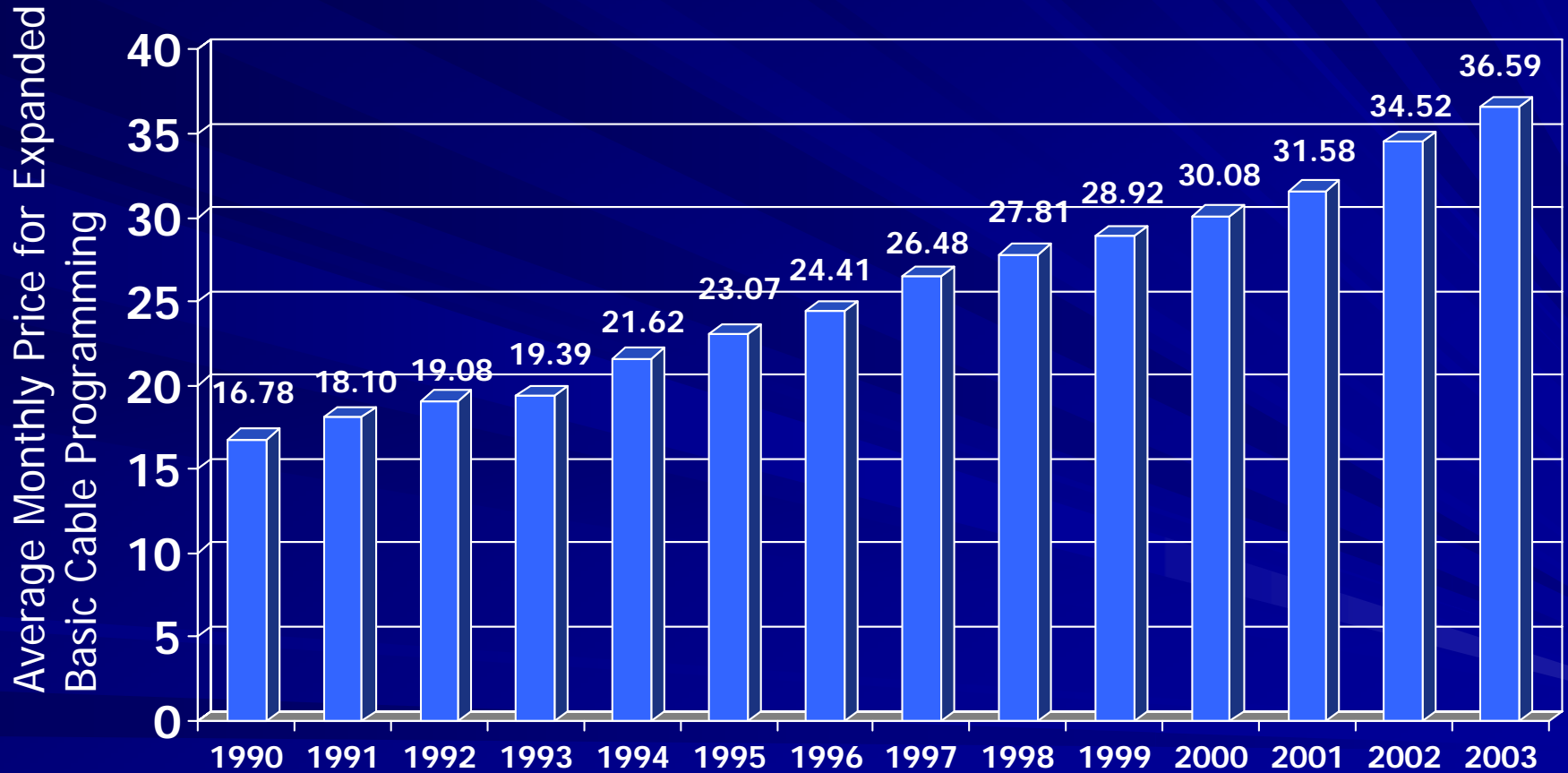
VoIP

- VoIP allows voice traffic to be packetized as data, without the need for the traditional circuit switching of the public switched telephone network.
- VoIP can be offered over any broadband line
- VoIP offers new features
- VoIP is cheaper: approximately \$35 for unlimited local and long-distance (compared to \$50 for circuit switched service)

VoIP Regulatory Questions

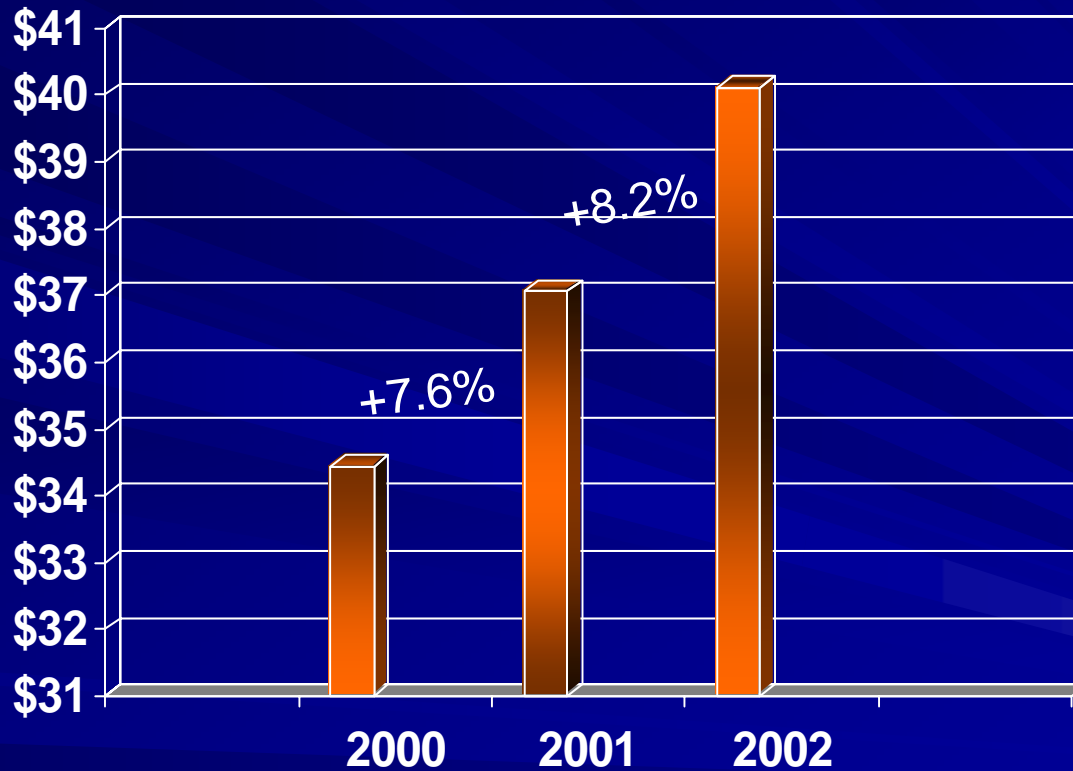
- Public Safety and Law Enforcement Regulations
 - Policy issue
 - Technology issue
- Universal Service
- Long Distance Charges

Cable Prices Increasing



Average Monthly Cable Rates

(programming + equipment)



Source: FCC's Report on 2002 Cable Industry Prices , 7/03

Cable Programming Pricing Case Study: Arlington, Virginia

- **Basic tier** = \$13.99
- **Expanded basic tier** = \$47.07 (includes basic tier)
- **Digital tier** = starts at \$65.01 (includes Basic and Expanded basic)
- **Premium networks:** = approximately \$9 each (discounted if multiple networks purchased)
- **Pay-per-view** = approximately \$4 per program
- **Video-on-demand** = free with purchase of digital programming

Viewing Trends

- Average consumer watches only about 12-17 channels regularly
- The top 10 cable networks account for 50 percent of all viewing
- The top 20 channels account for 75 percent of all viewing.
- The least watched 30 channels pass an average of almost 70 million homes, but only 250,000 households watch them during any given day

Cable Industry's Explanations for Higher Rates

- More channels in package
- Improved programming
- New services
 - Commercial-free music channels
 - HDTV
 - Video-on-demand
 - Digital video recorders
 - Cable modem service
 - Telephony

Rise in Cost of Sports Programming

- NBA has risen 175% since 1997
 - \$278 million per year in 1997; \$765 million in 2003
- NFL is up 106% since 1997
 - \$1.1 billion per year in 1997; \$2.27 billion in 2003
- NHL has risen 173% since 1999
 - \$44 million per year in 1999; \$120 million in 2003
- Major League Baseball has risen 44% for the 2000-2006 contract

Cable Industry Arguments Against A La Carte

- It would *increase* prices
- It would hurt the diversity of programming
- It would be technically difficult to implement

Content Regulation for Broadcast

- No “indecent” material between 6:00 AM and 10:00 PM
- “Indecent” means language or material that, in context, depicts or describes, in terms patently offensive as measured by contemporary community standards for the broadcast medium, sexual or excretory organs or activities

Indecency Rules Do Not Apply to Cable

- U.S. Constitution protects Freedom of Speech
- Supreme Court held that FCC can regulate broadcast because it uses physically scarce airwaves and is invasive
- Supreme Court has not been receptive to same kinds of regulation for cable

TV Ratings

- **TV-Y:** appropriate for all children
- **TV-Y7:** appropriate for children age 7 and above
 - where intense fantasy violence, program will be designated **TV-Y7-FV**
- **TV-G:** suitable for all ages
- **TV-PG:** contains some material that parents may find unsuitable for younger children
 - moderate violence (**V**), some sexual situations (**S**), infrequent coarse language (**L**), or some suggestive dialogue (**D**)
- **TV-14:** contains some material that many parents would find unsuitable for children under 14
 - intense violence (**V**), intense sexual situations (**S**), strong coarse language (**L**), or intensely suggestive dialogue (**D**)
- **TV-MA:** Unsuitable for children under 17
 - graphic violence (**V**), explicit sexual activity (**S**), or crude indecent language (**L**)

Thank you

