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Report to the Chairman, Subcommittee on Telecommunications and Finance, Committee on Energy and Commerce, House of Representatives

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TELECOMMUNICATIONS

Follow-Up National Survey of Cable Television Rates and Services

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Resources, Community, and
Economic Development Division

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The Honorable Edward J. Markey
Chairman, Subcommittee on Telecommunications
and Finance
Committee on Energy and Commerce
House of Representatives

Dear Mr. Chairman:

In response to your October 2, 1989, request, this report presents the results of our recent survey of cable television rates and services. It follows up on our first cable rate survey, the results of which we reported to the Subcommittee in August 1989. Specifically, we agreed to update our survey through 1989 and to collect data from 1984 and 1985 to further study the effects of the Cable Act. In addition, we sought to determine whether cable rates have moderated during 1989 and whether cable system ownership changes have driven up cable rates. We also reviewed proposals for amending the Cable Act and the major options for dealing with the cable industry's market power.

With your permission, we coordinated our survey with the Federal Communications Commission, and we have provided the Commission with our survey questionnaire data for its analysis in conjunction with its ongoing cable policy study, mandated by the Cable Communications Policy Act of 1984.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of this letter. At that time, we will send copies to interested parties and will make copies available to others upon request.

Major contributors to this report are listed in appendix VIII. If I can be of further assistance, please contact me at (202) 275-5525.

Sincerely yours,

John M. Ols, Jr.

John M. Ols, Jr.
Director, Housing and Community
Development Issues

Effective December 29, 1986, the Cable Act prohibited localities from regulating basic cable rates if the cable system was subject to "effective" competition—defined by the Federal Communications Commission (FCC) as the availability of three or more over-the-air television channels in a community. As a result, cable systems located in such communities no longer were subject to local rate regulation.

Results in Brief

GAO's survey, covering 1984 through 1989, showed that cable rates have continued to increase. During 1989, an average cable subscriber's monthly rates for both the lowest priced and the most popular basic services increased by 10 percent. These rate increases were accompanied by small increases (one and two channels, respectively) in the average number of basic channels offered. Revenue to cable operators per subscriber increased, on average, by 5 percent during 1989. For those systems changing ownership between 1985 and 1989, GAO did not find any statistically significant pattern of higher basic rate increases than those imposed by cable systems that remained under the same ownership.

GAO's survey showed, in the 3 years since deregulation, average increases of 39 and 43 percent, respectively, for the most popular and the lowest priced basic services, and a 21-percent increase in revenue per subscriber. During this period, cable subscriptions increased by 22 percent, and system penetration (total number of subscribers divided by the number of homes having access to cable) increased from 56 to 58 percent. The lack of close substitutes to which consumers can switch (which gives cable operators market power) is often cited as a reason that the subscriber base has not decreased despite substantial rate increases, although there are other potential explanations, such as improved cable programming.

The continued increases in cable rates are likely to fuel further debate over regulating the cable industry. For many, promoting more competition is the policy option preferred to regulation. Views differ, however, on the extent to which potential sources of competition will be available on a significant enough scale to provide much competition in the near future. This report discusses major legislative and regulatory proposals being considered, as well as various policy options to deal with the cable industry's market power.

GAO's survey, however, did not confirm this charge. Comparing rate increases occurring immediately after systems changed ownership with rate increases during the same period in systems that did not change hands, GAO found no statistically significant pattern of higher increases in the systems changing ownership.

Changes in Other Cable Data

GAO also collected data on other cable operations—options, premium services, revenue per subscriber, subscriptions, and cable system penetration. The availability of options and charges for premium services showed little change. Average revenue to cable operators per subscriber (covering revenue from all subscriber services) increased 21 percent over the past 3 years, from $21.78 to $26.36. During 1989, revenue per subscriber increased 5 percent, from $25.00 to $26.36. Total cable subscriptions continued to grow, increasing by 22 percent since deregulation. Also, the number of homes having access to cable grew by 14 percent. Cable system penetration (total subscribers as a percentage of homes having access to cable) increased slightly, from 56 to 58 percent.

Policy Options

Because the nature of basic cable service was fundamentally altered after deregulation, it is difficult to assess how much of the rate increases that followed is due to the market power of cable operators. However, many agree that the cable industry has structural characteristics that permit the exercise of market power. Views on the prospects for competition in the near future vary, and thus lead to different policy options. Chapter 3 discusses the major legislative and regulatory proposals currently being considered, and chapter 4 discusses the pros and cons of several policy options to deal with the cable industry's market power, including broadening the definition of which cable systems are subject to regulation and/or returning control to localities or FCC.

Recommendations

GAO is not making recommendations in this report or taking a position on the various policy options discussed.

Agency Comments

GAO shared survey data with FCC. However, in accordance with the Subcommittee's policy, GAO did not obtain comments on this report from FCC or from representatives of the cable industry.

industry has occurred. Cable subscriptions have grown from 32 million households in January 1985[3] to about 53 million currently, representing about 58 percent of all television households.[4] During this same period, the number of cable programming services has more than doubled. Most cable systems are technically capable of offering 12 or more channels, and our survey results showed that the average cable subscriber had access to almost 40 cable channels at the end of 1989.

Cable Television Service

Cable systems may market several different services—basic, optional, premium, and pay-per-view. Basic service includes any service offering the re-transmission of local television broadcast signals, and may also include programs available via satellite transmission, such as C-Span and CNN, either as a single level of service or as two or more "tiers," each priced individually. Additional tiers of basic service are generally referred to as expanded basic service and offer additional channels beyond the basic level of service. Optional services—such as set-top converters, remote control units, FM radio service, cable program guides, and cable outlets for additional television sets are available for an extra charge. Premium services generally include movie or other entertainment channels, such as Home Box Office and Cinemax, available individually or in combination for a monthly fee in addition to the charge for basic service. Pay-per-view service offers selective program viewing for special sport events, movies, or other shows for an additional fee per showing.

Cable Rate Regulation

The regulation of the cable television industry has historically involved a mixture of federal, state, and local entities establishing policies, regulations, rules, and procedures. However, the control of cable rates had its foundation primarily at the state and local levels and was limited to the lowest tier of basic service.

When cable television first developed as a means of providing better television reception, many cities and a few states began regulating the basic rates charged to cable subscribers. The regulation of basic rates was a condition of the local government's grant of a franchise or license. The franchise permitted the cable system to construct and operate cable

[3]FCC Notice of Inquiry, MM Docket No. 89-600, p. 3.

[4]Broadcasting, May 14, 1990, p. 15

amend the Cable Act.[5] Proposals include implementing measures to control cable rates or making the cable industry subject to more direct competition.

First GAO Cable Survey

In August 1989, in the midst of this debate on cable television rates, we reported to the Chairman, Subcommittee on Telecommunications and Finance, House Committee on Energy and Commerce, on the results of our first national survey of cable television rates and services. We found that over the 23-month reporting period ending in October 1988, average monthly rates per subscriber increased by 29 percent for the lowest priced basic service. A further analysis of this increase revealed that about 62 percent of subscribers incurred rate increases of 10 to 40 percent during this period, and almost 28 percent of subscribers had increases over 40 percent.

Different interpretations have been offered explaining the causes for the rate increases we reported, with no agreement over whether they were due to a one-time rate adjustment in the aftermath of deregulation, increased program costs, changes in cable company ownership, or deregulation. Industry officials explained to the subcommittee that these rate increases were one-time adjustments in response to rates being held artificially low during a period of regulation and that future rate increases would be moderate. Industry officials also noted that the cost per channel we reported showed a much smaller change, indicating that rate increases had been accompanied by corresponding increases in the number of channels offered.

Continuing Congressional Interest

Concern over how to deal with complaints over cable rates and services has led to the introduction in the Congress of numerous bills dealing with various cable issues, including whether to regulate rates and associated charges. Congressional hearings have centered on gaining greater insight into changes in the industry since deregulation to determine the effect industry growth has had on rates paid by cable subscribers and whether cable systems truly face effective competition. Major areas of concern include (1) the increasing concentration in cable system ownership (horizontal concentration), creating the possibility that cable systems may engage in anticompetitive behavior because of the size of their

[5] Actually, the legislative proposals generally purport to amend the Communications Act of 1934. The Cable Act of 1984 was incorporated into the Communications Act as Title VI. The legislative proposals which are discussed generally would amend Title VI.

regulation in the video services marketplace. In addition, on January 22, 1990, FCC issued a Notice of Proposed Rulemaking[8] to reexamine its rules regarding the regulation of basic cable rates. In particular, this notice concluded that changed circumstances in the video marketplace warranted a review of FCC's three-signal standard for defining effective competition.

Objectives, Scope, and Methodology

During hearings in August 1989 on the results of our first survey of cable rates and services, the Chairman, Subcommittee on Telecommunications and Finance, House Committee on Energy and Commerce, asked us to conduct a follow-up national survey of cable television rates and services. We agreed to update our survey through 1989 to determine whether cable rates have moderated, obtain additional historical data for 1984 and 1985 to further examine the effects of the Cable Act, and examine whether a correlation exists between sales of cable systems and subsequent rate increases.[9]

In conducting our follow-up rate survey, we again developed a questionnaire similar to the one used in our first survey. (App. VI contains a copy of our questionnaire.) However, recognizing that FCC had a legislative mandate to conduct a study requiring similar information, with the subcommittee's concurrence, we conducted our survey in cooperation with FCC to avoid duplication and an undue reporting burden on the cable industry.

In designing our questionnaire, we coordinated closely with FCC and incorporated its proposed questions where appropriate. Also, we sought the comments and views of officials of the National League of Cities, the Conference of Mayors, the Community Antenna Television Association, and NCTA. Finally, we pre-tested the questionnaire with seven cable operators. We considered their comments where appropriate in finalizing the questionnaire.

As in our first survey, we obtained cable system names and addresses from a data base maintained by Television Digest, Inc., publisher of the

[8]FCC Notice of Proposed Rulemaking, MM Docket No. 90-4.

[9]The subcommittee also asked us to collect cable system revenue and cost data. However, we found no workable approach, within a reasonable reporting time frame, for including such data in our follow-up survey. The lack of uniformity in cable system accounting practices, different policies on aggregating costs, and concerns over the willingness of cable operators to furnish confidential data were all raised by both FCC and cable industry officials as major problems to be overcome before a meaningful financial survey could be conducted.

We conducted our survey between January 1990 and March 1990. All cable systems received follow-up telephone calls after the original January mailing. In order to achieve as high a response rate as possible, we sent follow-up questionnaires to nonrespondents in February, along with another round of telephone reminders. By March 31, 1990, we had received a total of 1,530 responses, a response rate of 78 percent.

To obtain as many usable responses as possible, we reviewed and edited all questionnaires for consistency and contacted cable system officials by telephone to resolve any ambiguous response patterns. Also, in our questionnaire we pledged that, except for sharing our data with FCC, responses would be kept confidential and reported in summary form only and that no individual cable system's or company's responses would be identified by either FCC or GAO.

Our first survey was conducted using a sample of cable systems in existence in 1988. This follow-up survey is based on responses received from a new sample of cable systems in existence during 1989. Because both our surveys were based on two different samples, our results for 1986-88 in this report may differ slightly from comparable results we reported in our first survey for the same period.

Twenty-two percent of the cable systems surveyed did not respond to our questionnaire. An analysis of these nonrespondents indicates several reasons for their not responding, including the fact that 3 percent of the questionnaires we mailed were undeliverable by the Postal Service. Thus, we believe a more accurate count of systems unwilling to respond is 19 percent. A further analysis of nonrespondents indicates that the smaller systems were less likely to respond and that those cable systems that did respond contained 86 percent of the total subscribers represented in our sample of 1,971 systems.

All sample surveys are subject to sampling error. The sampling error is the maximum amount by which results obtained from a statistical sample can be expected to differ from the true universe characteristic (value) we are estimating. At the 95-percent confidence level, this means that the chances are 19 out of 20 that if we surveyed all cable systems, the results would differ from the estimates we obtained by less than the sampling error of these estimates. All sampling errors for the estimates in this report were calculated at the 95-percent confidence level and are reported in each of the tables presented in appendixes I through V. The tables also contain estimates of the number of cable systems that would have responded had we sampled all systems.

Results of Follow-Up National Survey of Cable Television Rates and Services

In our follow-up survey, we surveyed cable television systems to compare rates and services offered as of November 30, 1986, just prior to the effective data of deregulation, with those offered on December 31, 1989, the latest date for which we collected information. By comparison, the cutoff date for our first survey was October 31, 1988. In addition, in this survey we collected data for 1984 and 1985—2 years prior to deregulation—to better assess the changes that took place following deregulation. Specifically, chapter 2 addresses changes in

- basic cable rates and services (for both the lowest priced and the most popular services offered by cable systems);[1]
- the availability of options, such as cable outlets for additional television sets;
- rates for premium services;
- overall revenue to cable system operators per subscriber; and
- cable subscriptions.

Appendixes I through V contain additional tables detailing the results of our survey.

Highlighting our results for the past year, our survey showed continuing substantial increases in basic cable rates. During 1989, an average cable subscriber's monthly rates for both the lowest priced and the most popular basic services increased by 10 percent. These rate increases were accompanied by small increases (one and two channels, respectively) in the average number of basic channels offered. The availability of options and charges for premium services showed little change in 1989, compared with our previous survey results. Overall revenue to cable operators per subscriber increased, on average, by 5 percent during 1989.

In the 3 years since deregulation, our survey showed average increases of 39 and 43 percent, respectively, for the most popular and the lowest priced basic services, and a 21-percent increase in revenue per subscriber.[2] Despite these sizeable increases, overall cable subscriptions

[1]Because some cable systems offer more than one level or "tier" of basic service, this report (like our previous report) includes information on both the lowest priced service offered and the service to which most customers subscribe (i.e., the most popular service). Since most systems have only one tier of basic service, the most popular service is generally also the lowest priced service.

[2]During this period (November 1986 to December 1989), the nation's overall price level, as measured by the gross national product implicit price deflator, rose by about 11 percent. Taking inflation into account by adjusting 1989 cable rates to 1986 constant dollars results in increases of about 29 percent for the lowest priced basic service, 26 percent for the most popular basic service, and 9 percent for revenue per subscriber.

from 24 channels on November 30, 1986, to 31 channels as of December 31, 1989. Channels available for the subscribers to the most popular basic service also increased, on average, from 27 to 34. During 1989, the number of channels offered increased modestly, by one and two channels, respectively, for the lowest priced and the most popular services.

Table 2.3: Average Number of Basic Channels Received per Subscriber

	Average number of basic channels received per subscriber for:	
Date	Most popular service	Lowest priced service
11/30/86	27	24
12/31/88	32	30
12/31/89	34	31

Table 2.4 contains the categories of basic cable programming available to cable subscribers to the lowest priced service, showing in which categories increases in the number of channels took place since 1986. Clearly, the bulk of the increase occurred in the basic cable networks.[3] The table shows that basic cable networks increased from 11 to 17 between 1986 and 1989, thereby providing more services. Our survey indicated that the availability of both local and distant stations[4] remained constant. In addition, there was little change in the leased access/other category, which includes public, educational, and government access channels (commonly referred to as PEGs).

Table 2.4: Types of Programming Available With Lowest Priced Basic Service Tier

	Number of channels available to average subscriber on:	
Type of Programming	11/30/86	12/31/89
Local television stations	8	8
Distant television stations	3	3
Basic cable networks	11	17
Leased access/other channels	2	3

Rate Changes in Regulated and Nonregulated Systems

Although the Cable Act restricted local rate regulation effective December 29, 1986, our survey showed that 24 percent of the cable systems reported that they were already not regulated on November 30,

[3]Examples of basic cable networks are CNN, USA, MTV, The Discovery Channel, etc.

[4]Distant stations include "superstations"—such as WTBS, WWOR, and WGN—received by cable systems via micro-wave or satellite dish.

once during that time. Table 2.6 shows, by year, the percentage of cable systems that changed ownership.

Table 2.6: Percent Changes in Cable System Ownership Between 1985 and 1989

Year of ownership change	Percentage of systems
1985	8
1986	15
1987	14
1988	18
1989	13

Our survey results, however, did not reveal a pattern of basic service rate increases following the sale of a cable system. We compared the dollar amount of rate increases occurring after systems changed ownership with rate increases during the same period in systems that did not change hands, and found that the differences were not statistically significant.

In this regard, FTC, in its comments on FCC's Notice of Inquiry, concludes that changing cable ownership should not affect cable rates. FTC comments that

> ". . . it is difficult to see how 'trafficking' in and of itself could affect the rates charged to cable subscribers . . . . The fact that a cable system changes hands would not by itself be expected to alter marginal revenue or marginal cost, so it is difficult to see how simply changing ownership would change price or output . . . . Overall, it is difficult to see how restricting 'trafficking' would improve consumer welfare."[6]

Optional Services

Our follow-up survey also collected information as of December 31, 1989, on optional services, such as outlets for second television sets and remote control units, to compare changes in such services with changes in basic service rates.[7] We were particularly interested in learning the extent to which services offered as options at extra charge in 1988 were being offered as part of basic service in 1989. Overall, we found little movement. For example, we reported in our first survey that as of October 31, 1988, 10 percent of systems offered additional cable outlets as part of their most popular basic service. Our follow-up survey

[6]Comments of the staff of the Bureau of Economics and the San Francisco Regional Office of the Federal Trade Commission, to FCC Notice of Inquiry (MM Docket 89-600), pp. 38-41.

[7]Rates for optional services generally were not subject to state or local regulation prior to the Cable Act.

about 5 percent.[9] The increase for 1989, $1.36 per month, is comparable to the basic rate increases we have reported—$1.45 and $1.42, respectively—for the lowest priced and the most popular services.

Cable Subscriptions and Penetration

The cable industry continues to grow. Total subscriptions have increased by 22 percent since deregulation, and the number of homes that can access cable has grown by 14 percent. Overall, cable system penetration (total number of subscribers as a percentage of the number of homes having access to cable) increased slightly, from 56 percent in November 1986 to 58 percent in December 1989.

[9]In comparison, for the same 37-month period of our survey, the Bureau of Labor Statistics' Urban Consumer Price Index (CPI) showed a 26-percent increase in the average consumer's monthly bill for cable television service (November 1986 to December 1989). The CPI showed a 3.8-percent increase from December 1988 to December 1989.

FCC is already in the midst of re-evaluating its effective competition definition. In particular, FCC is gathering comments on whether (1) its existing standard should be increased from three signals; (2) existing alternative video programming sources (i.e., home satellite dish, direct broadcast satellite, private cable systems) provide effective competition to basic cable service; and (3) competition will increase if subscribers are able to purchase cable programming on a per-channel basis. FCC is revisiting its definition of effective competition because competition among cable companies and from other technologies such as direct broadcast satellites (DBS), wireless cable, and private cable has been developing more slowly than anticipated. Increases in basic service rates have also led to questions about whether cable systems have greater market power than was indicated prior to FCC's adoption of its current effective competition definition.

Some groups argue that the existence of over-the-air television channels as well as other video alternatives offers only partial substitutes for cable television. Such alternatives cannot compete directly with cable because they do not have the wide variety of programming cable offers the consumer. Another cable system can compete, but the existence of more than one cable system within an area is rare.

We identified 11 bills introduced in the Congress designed to control cable rates and associated charges. For the most part, these bills would require or allow "re-regulation" of basic cable service. Depending upon the bill, either all cable systems would be subject to regulation, or only systems in those areas not subject to a more stringent standard of effective competition than under existing laws.[2] Some proposals would regulate rates at the federal level. Other proposals would allow state and local authorities to regulate. Of these latter proposals, some would require localities to consult with FCC and the cable system before regulation.

These legislative proposals would generally make cable operators more accountable for rate increases and restore some authority to local communities. These proposals would allow state and local authorities to

- regulate rates for a limited "lifeline" service,
- regulate basic cable service,

[2]At least one bill provides that cable systems shall be presumed to be subject to effective competition if fewer than 30 percent of the households in the cable community subscribe to the cable system or the cable community is served by more than one multichannel video programming distributor.

9,000 different local governments would deter cable operators' investments in new programming and plant equipment. Opponents of regulation also claim that re-regulation would create other problems, such as slowing system modernization, and thus would limit channel capacity for carrying both existing and new programming.

Telephone companies believe that competition is the solution. Rates would be kept low, and regulation would not be needed if they were allowed to provide cable service and compete with cable systems.

Some respondents also proposed to refine the definition of effective competition. These respondents stated that FCC's three-signal standard should be increased to five or six signals, which when combined with video alternatives such as multichannel multipoint distribution service (MMDS), home satellite dishes, video cassette recorders, and movie theaters would create sufficient competition to local cable service. Those systems not subject to effective competition would be regulated.

Changes in Franchise Renewal Procedures

The Cable Act placed several restrictions on local and state governmental authorities over the franchise renewal process. Among other things, the act set forth specific procedures for state and local governments to follow when renewing (or not renewing) a cable operator's franchise and established renewal standards and safeguards. In this regard, franchise denial has to be based upon the cable operators' failure to satisfy one or more of the specified standards. City officials believe the franchise renewal provisions in the Cable Act make it difficult for franchise authorities to refuse to renew franchises, for example, by preventing them from soliciting competitive bids. Thus, city officials believe state and local governments have limited authority to use against cable operators providing poor service. Cable operators, however, believe that the Cable Act has provided stability for good cable operators, allowing them to plan for the long term without having to worry about their assets being confiscated upon expiration of the franchise.

Prior to the Cable Act, there were no federal statutory restrictions on the cable franchise renewal process. Although city officials stated that they rarely denied renewal requests, they believed that the threat of denial gave cable operators a strong incentive to provide quality cable service at affordable prices. However, cable operators had no assurance that their franchise would be renewed regardless of how well they performed. The term of an existing franchise is generally 10 or 15 years.

state and local governments to grant renewal to a cable operator whose renewal proposal meets certain statutory standards. City representatives object to restrictions on state and local governments' rights to consider competitive proposals from other cable operators.

"Must Carry" Provisions

In 1965, FCC promulgated its "must carry" rules requiring that cable systems carry local television stations to ensure that cable subscribers would continue to receive both over-the-air and cable channels. The rule was designed to protect local television stations from losing viewers to the cable channels. In 1985, the D.C. Circuit of the U.S. Court of Appeals held that FCC's must carry rule violated cable operators' and cable programmers' first amendment rights.[3] As a result of this decision, FCC revised its must carry rule to avoid constitutional problems, and a few cable systems dropped some lesser-viewed local stations. In 1987, the D.C. Circuit Court of Appeals held that this modified rule also violated the first amendment.[4]

Currently, must carry provisions have been included in various proposed bills for the purpose of assuring viewers access to news and information from their local television stations. Some legislative proposals, however, contain additional measures to protect the interests of local stations. Proposals introduced in the Congress include the following:

- Cable operators would be required to carry local television stations in order to receive the benefits of "compulsory licensing." These benefits allow cable operators to re-transmit local television programming without having to negotiate with the stations for broadcasting rights.
- Cable operators would be required to carry all local programming or, in some proposals, various categories of local programming.
- Cable systems would be prohibited from repositioning[5] local television channels in their cable channel lineup.
- Localities would have the right to approve decisions by cable systems to change basic service tiers or re-position local channels, regardless of whether the system is subject to rate regulation.
- Cable systems would have the option of retransmitting local television stations, but would have to pay for that right. The retransmission of

[3]Quincy Cable TV, Inc. v. FCC, 768 F 2d. 1434 (D.C. Cir., 1985).

[4]Century Communications Corp v. FCC, 835 F.2d. 292 (D.C. Cir., 1987), cert. denied, 108 S.Ct. 2014 (1986).

[5]Changing the channel on which a broadcast station is aired.

engaging in practices that deny subscribers access to television signals. Also, a channel positioning requirement would effectively give broadcasters a preference in channel placement over non-broadcast cable programmers.

Cable systems oppose the "if carry, must pay" proposal. Their opposition is based on the belief that if a cable system chooses to carry one local station, it must carry virtually all the local stations, and then would have little choice but to raise cable rates in order to compensate all the broadcast stations. The results would be higher monthly bills for cable subscribers, leading to further complaints about cable rates.

Vertical Integration

In recent years, there has been growing vertical integration within the cable industry. Vertical integration occurs when a company not only owns local cable systems but also has ownership interests in the production or supply of cable programming networks.

About half of the basic cable programming networks are at least partially owned by Multiple System Operators (MSO),[6] and most pay cable programming is owned by MSOs. This has led to the belief that independent cable systems, cable programmers, and alternative cable distributors find it difficult to compete with MSOs and their affiliated programmers. Allegedly, MSOs discriminate against programs in which they do not have an ownership interest; force cable programmers to provide popular programming exclusively to their cable systems in areas where they have competitors; and refuse to sell programming, or sell only on unfavorable terms, to independent cable systems or alternative video distributors. As a result of these practices, consumers are unable to receive diverse programming. Legislation proposed to address these practices include

- prohibiting cable systems or MSOs from discriminating against unaffiliated programmers in the price, terms, and conditions of access to their cable system;
- prohibiting cable programmers affiliated with MSOs from discriminating against unaffiliated cable operators and other alternative video distributors in the price, terms, conditions, and availability of programming;
- prohibiting cable operators from establishing exclusive distributorships for programming in a franchise area or from entering into contracts that

[6] MSOs are cable companies that own a number of local cable systems.

the Department of Justice questions whether regulations prohibiting or limiting vertical integration would advance consumer welfare. It believes that the current antitrust laws are adequate to protect the public.

Some cable representatives oppose legislation that would "require cable networks with operator affiliation to make programming available to all financially qualified distributors, regardless of distribution technologies, at the same rates, terms, and conditions granted to cable operators."[8] They believe that limiting vertical integration would disrupt the exclusive rights cable companies have to their programming and reduce the differences between cable and noncable products. Differentiation in the distribution of video programming is the key to successful competition because it provides consumers with a diversity of information and entertainment and enhances choices.

Horizontal Concentration

Horizontal concentration is also occurring in the cable industry. Horizontal concentration results when a number of local cable systems are owned or controlled by one company (MSO), resulting in the MSO having a large percentage of subscribers across numerous communities. It is argued that some cable systems have grown to such a degree that they are able to control the cable television market because of their large subscriber base. These systems fare better in the market because they receive a volume discount on rates for cable programming.

A number of measures have been proposed to limit the number of subscribers any one cable television company can serve, capping the number of cable subscribers at 15 or 25 percent of all U.S. subscribers. Additional legislation has been proposed that would allow localities to consider a cable operator's media ownership interests when deciding on whether to grant or renew a franchise.

Arguments in Favor of Limiting Horizontal Concentration

City representatives and alternative video distributors favor capping the number of subscribers nationwide an MSO can serve. Concentration can stifle competition when cable systems refuse to carry cable programming they are not affiliated with. In turn, this affects the diversity of programming available to cable subscribers because they have fewer programming choices.

[8]Letter to Senator Inouye from NCTA, Jan. 17, 1990, p. 9.

- allowing telephone companies to provide video programming, similar to cable, directly to subscribers with possible restrictions.

Arguments in Favor of Telephone Company Ownership of Cable Systems

Telephone companies favor entry into the video market. They believe that a lifting of the ban on telephone companies cross-ownership of cable systems is in the public interest. Allowing telephone companies to participate in video programming would expedite technological developments, lower rates, increase the supply of programs, and give customers additional choices.

The National Telecommunications and Information Administration also favors allowing telephone company entry, but only to provide a "video dial tone" as a regulated common carrier. The telephone companies would not be allowed to own or control the programming sent out over their cable systems.

Advocates of telephone company entry argue that, since the Cable Act, cable has grown into a vibrant industry, without much competition. To keep rates down, ensure high-quality service, and ensure the availability of diverse programming, some advocate the entry of telephone companies into the cable marketplace. They believe that telephone companies would stimulate competition in a cable industry that is now dominated by a few MSOs. They also believe the entry of telephone companies may result in technological innovations, such as the introduction of fiber optics. A fiber optical network would enable telephone companies to offer interactive television, video-on-demand, at-home banking and shopping, education and self-help courses, as well as many other services.[12]

Arguments Opposed to Telephone Company Ownership of Cable Systems

Cable companies and some other assorted groups oppose the entry of telephone companies into the video marketplace. Two reasons are given. The first argument is that telephone companies will not add competition since they intend to supplant existing cable systems, not compete with them. The second argument is that the telephone industry wants to put a single wire into every home which would be the sole source of voice, data, and video service. This concept places ratepayers at risk of paying for a new technology and new facilities that may not be financially practical for many years to come, and may not guarantee future benefits. Critics of the entry of telephone companies state that

[12]Existing copper telephone wiring cannot be used for cable television service.

Regulation of Cable Television Rates: What Are the Options?

There is a concern that cable systems in many communities have enjoyed undue market power after deregulation. Comments submitted to FCC by a number of groups, in connection with its two current proceedings on the cable industry, generally conclude that basic cable services, with their wide range of programming, have become increasingly distinct from conventional television and other video delivery technologies and that there is no close substitute presently available for these basic cable services.

The results of our survey tend to confirm that view. For example, we found that while rates for the lowest priced basic service available to the average cable subscriber increased by 43 percent after deregulation, cable subscriptions and penetration nationwide have increased as well. Although there are other potential explanations, the unresponsiveness of the subscriber base to substantial price increases is frequently attributed to the lack of any close substitute services to which consumers can switch. The Department of Justice, in its comments to FCC, provided a similar interpretation.

If a product is provided by one seller and there are no close substitutes available in the market, then the seller is able to influence the price; that is, the seller possesses market power. Most communities have a sole cable provider and lack close substitutes for cable television services. A number of comments, submitted to FCC in response to its Notice of Inquiry, attempted to determine whether cable systems possess undue local market power. These comments generally found that local cable systems possess some degree of market power.

The substantial rate increases we have reported for 1989 are likely to continue to fuel congressional debate over how to "reign in" what the Chairman of FCC and others have called an "unregulated monopoly." Legislative proposals currently before the Congress, as well as comments submitted to FCC in connection with its cable proceedings, reveal several approaches and alternatives for dealing with the market power of the cable industry, including placing different degrees of reliance on government regulation versus introducing market forces to arrive at a solution.

An important element of any debate over cable rate increases is knowledge of cable system costs. We cannot state the extent to which rate increases were accompanied by increased cable system costs since it was not feasible, within a reasonable reporting time, to collect cost data as part of our survey.

effective date of deregulation under the Cable Act, about two-thirds of cable systems were rate-regulated.

As discussed previously in this report, FCC is currently reassessing its definition of effective competition. A number of comments filed with FCC recommended the adoption of a tougher standard, which would result in more cable systems being subject to rate regulation. The Department of Commerce's National Telecommunications and Information Administration recommended moving to a new standard of six over-the-air television channels, and NCTA recommended adoption of five channels as the new standard. In this regard, the results of our survey, as of December 31, 1989, showed that about 30 percent of cable subscribers lived in communities where six or fewer over-the-air television channels are available.[1]

Use of an effective competition standard composed of only over-the-air television channels, however, is open to question, since cable systems also provide distant television channels and exclusive cable programming for their basic service subscribers. For example, our survey showed that on December 31, 1989, the average cable subscriber received, as part of the lowest priced basic service, 8 local stations, 3 distant stations, and 17 channels of basic cable programming. In this regard, the Department of Justice commented to FCC as follows:

> "Several reasons suggest that broadcast television is generally not a close substitute in the eyes of consumers for the full range of basic programming services now distributed by cable television systems. Basic cable services offer greater variety and quantity of video programming (i.e., non-local programming) and in some areas superior signal quality than is available on broadcast television. That conventional television is not a close substitute for basic cable services is also evidenced by the very large number of consumers who pay substantial monthly charges to receive basic cable services despite the availability of broadcast television services at no direct cost. And, this consumer preference for basic cable services has persisted and increased during a period when the number of conventional television signals has increased."[2]

A number of commenters on FCC's proceedings, as well as some legislative proposals, have recommended the adoption of a more stringent effective competition standard that would require the existence in the

[1] In our questionnaire, we asked cable operators how many network affiliates, other commercial stations, and noncommercial stations were available over the air (significantly viewed) in their franchise area.

[2] Reply Comments of the U.S. Department of Justice to FCC Notice of Inquiry (MM Docket 89-600), p. 14.

Price-cap regulation, however, cannot address variations across localities of the market power of local cable systems or the different regulatory needs of local communities. In this regard, the Department of Justice, in its comments to FCC in conjunction with FCC's cable policy study, raises a question about the need for a uniform national policy. Justice points out that since the nature and the extent of local cable market power may vary considerably among local markets, uniform national policies have some clear disadvantages, and so allowing local governments to adopt that form of regulation of local cable services that they deem most beneficial would not be inconsistent with federal antitrust policy.[4]

Return Control to Local Communities

Some commenters and proposals expressed concern that the Cable Act, by both deregulating rates and establishing specific criteria for franchise renewal, has greatly weakened the power of communities to control rates and service, and limited their ability to monitor cable system performance. These proposals seek to restore to local communities greater control over both cable rates and the franchise renewal process as a way to improve the oversight of cable rates and service.

Both the Department of Justice and FTC, in comments to FCC, support greater local control over cable rates and service. In particular, FTC calls for amending the Cable Act to return to localities greater control over the cable franchise. FTC observes that the threat of franchise nonrenewal seems likely to have played a role in constraining a franchisee's conduct, but that the Cable Act makes it more difficult for local governments to threaten nonrenewal. A decision not to renew a cable franchise may not be based on the prices charged by the operator, nor on the mix, quality, or level of cable services or other services provided over the system. These are the service variables of greatest interest to cable subscribers. FTC concludes: "Should Congress contemplate modifying the Cable Act to constrain perceived exercises of market power by cable systems, it might seriously consider altering the portion of the Act that governs the franchise renewal process."[5]

[4]Reply Comments of the U.S. Department of Justice to FCC Notice of Inquiry (MM Docket 89-600), pp. 9-10.

[5]Comments of the staff of the Bureau of Economics and the San Francisco Regional Office of the Federal Trade Commission to FCC Notice of Inquiry (MM Docket 89-600), pp. 35-36.

Table I.2: Average Number of Basic Channels Received per Subscriber

Date	Average number of basic channels received per subscriber for: Most popular service	Lowest priced service
12/31/84	**22.8**	**20.5**
	(±195)	(±0.4)
	N=2987	N=2986
	(±195)	(±195)
12/31/85	**24.6**	**21.8**
	(±0.5)	(±0.4)
	N=3348	N=3350
	(±206)	(±206)
11/30/86	**27.1**	**24.2**
	(±0.5)	(±0.5)
	N=3988	N=4005
	(±218)	(±218)
12/31/87	**30.0**	**27.7**
	(± 0.5)	(±0.6)
	N=4704	N=4709
	(±227)	(±227)
12/31/88	**32.2**	**30.2**
	(±0.6)	(±0.7)
	N=5429	N=5429
	(±227)	(±227)
12/31/89	**33.6**	**31.2**
	(±0.5)	(±0.4)
	N=6327	N=6329
	(±214)	(±214)

Note: The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

Table I.4: Changes in Basic Service Rates Since Deregulation

	Percentage of subscribers whose rates changed between 11/30/86 and 12/31/89 for:	
Change in rate	**Most popular service**	**Lowest priced**
No change or decrease	**3.1**	**10.2**
	(±0.7)	(±1.8)
Increase (percent)		
>0-≤20	**13.1**	**10.0**
	(±1.8)	(±1.4)
>20-≤40	**36.1**	**30.2**
	(±2.2)	(±2.3)
>40-≤60	**28.2**	**28.8**
	(±2.0)	(±2.2)
>60-≤80	**13.8**	**14.3**
	(±1.6)	(±2.0)
>80-≤100	**2.7**	**3.2**
	(±0.7)	(±0.9)
>100	**3.0**	**3.4**
	(±0.8)	(±1.0)

Note. The table above contains sampling errors for the values presented. Below are our estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

Most popular service, N = 3968 ± 218,
lowest priced service, N = 3918 ± 218

Table I.7: Rates for Lowest Priced Basic Service Provided by Systems That Were Regulated/Not Regulated Prior to Effective Date of Cable Act

	Average monthly charge per subscriber in systems that in 1986 were:[a]	
Date	**Regulated**	**Not regulated**
12/31/84	**$9.26**	**$10.33**
	(± 10)	(± 18)
	N=1999	N=753
	(±162)	(±116)
12/31/85	**9.93**	**11.14**
	(± 11)	(± 21)
	N=2212	N=856
	(±172)	(±127)
11/30/86	**10.92**	**11.99**
	(± 12)	(± 23)
	N=2686	N=980
	(±190)	(±136)
12/31/87	**12.95**	**13.21**
	(± 11)	(± 29)
	N=2997	N=1129
	(±200)	(±148)
12/31/88	**14.49**	**14.63**
	(± 11)	(± 32)
	N=3157	N=1126
	(±205)	(±147)
12/31/89	**16.06**	**15.77**
	(±.10)	(± 35)
	N=3358	N=1198
	(±208)	(±152)
Percent increase 1986-89	**47.1**	**31.6**
	(±2.3)	(±5 1)

Note The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems

[a]All these systems were not regulated as of 12/31/89

Table I.9: Types of Programming Available With Lowest Priced Basic Service Tier

	Number of channels available to average subscriber on:		
Type of programming	**12/31/84**	**11/30/86**	**12/31/89**
Local television stations	**7.2**	**7.7**	**7.9**
	(±0.2)	(±0 2)	(±0.2)
Distant television stations	**3.3**	**3.1**	**3.1**
	(±0 1)	(±0.1)	(±0.1)
Basic cable networks	**7.8**	**11.1**	**17.3**
	(±0.3)	(±0.4)	(±0.3)
Leased access/other channels	**2.3**	**2.3**	**2.5**
	(±0.2)	(±0.1)	(±0.1)

Note: The table above contains sampling errors for the values presented Below are our estimates of the number of cable systems (N) that would have responded had we surveyed all systems

12/31/84, N = 2484 ± 184,
11/30/86, N = 3343 ± 210;
12/31/89, N = 5451 ± 226.

Premium Cable Services

Table III.1: Number of Premium Channels Available

Date	Number of channels available to average subscriber
12/31/84	**4.2**
	(±.10)
	N=3041
	(±191)
11/30/86	**4.9**
	(±.07)
	N=4010
	(±217)
12/31/89	**5.2**
	(±.07)
	N=6437
	(±211)

Note: The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

Table III.2: Monthly Charge for Individual Premium Channels

	Average charge per cable system for:		
Date	Home Box Office	Showtime	Cinemax
12/31/84	**$10.19**	**$10.14**	**$9.75**
	(±.10)	(±.14)	(±.15)
	N=3087	N=1676	N=1547
	(±189)	(±139)	(±133)
11/30/86	**10.37**	**10.23**	**9.93**
	(±.09)	(±.13)	(±.12)
	N=4032	N=2346	N=2340
	(±214)	(±164)	(±168)
12/31/89	**10.24**	**10.02**	**9.80**
	(±.08)	(±.11)	(±.09)
	N=5503	N=3599	N=3564
	(±226)	(±207)	(±204)

Note: The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

Revenue to Cable Systems Per Subscriber

Table IV.1: Average Monthly Revenue Each Subscriber Generates for the Cable System

Date	Average revenue per subscriber
12/31/84	**$19.87**
	(±.24)
	N=2284
	(±177)
12/31/85	**20.91**
	(±.22)
	N=2722
	(±193)
11/30/86	**21.78**
	(±.21)
	N=3295
	(±207)
12/31/87	**23.33**
	(±.21)
	N=3980
	(± 220)
12/31/88	**25.00**
	(±.21)
	N=4753
	(±228)
12/31/89	**26.36**
	(±.22)
	N=5532
	(±226)
Percent increase	
1986-89	**21.0**
	(±1.2)
1988-89	**5.5**
	(±1.0)

Note: The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

Changes in Cable System Subscribership and Other Information

Table V.1: Cable Industry Growth

	Percent increase between:	
Category	**12/31/84 and 12/31/89**	**11/30/86 and 12/31/89**
Homes having access to cable	**26.1**	**14.4**
	(±1.4)	(±1.2)
	N=3397	N=4300
	(±210)	(±224)
Total subscriptions	**35.5**	**22.2**
	(±1.2)	(±1.5)
	N=3134	N=4074
	(±196)	(±219)
Premium channel subscriptions	**38.6**	**15.9**
	(±3.3)	(±2.0)
	N=2754	N=3848
	(±189)	(±217)

Note. The table above contains sampling errors for the values presented, as well as our estimates of the number of cable systems (N) that would have responded had we surveyed all systems

Table V.2: Changes in Cable System Penetration

Date	**Percent penetration**[a]
12/31/84	**56.9**
	(±1 1)
	N=2272
	(±175)
11/30/86	**56.1**
	(±1.2)
	N=3025
	(±203)
12/31/89	**57.5**
	(±2.0)
	N=4868
	(±229)

Note: The table above contains sampling errors for the values presented, as well as our estimates of the number of cable systems (N) that would have responded had we surveyed all systems Also, the estimated total number of homes having access to cable in systems reporting data in 1984, 1986, and 1989 for both homes accessible and total subscribers are 30 1 million ± 1 4 million, 40.6 million ± 1.8 million, and 53 8 million ± 3 0 million

[a]Number of subscribers/number of homes having access to cable systems

Table V.5: Number of Active Channels Carried by Cable Systems

Date	Number of channels available to average subscriber
12/31/84	**29.0**
	(±0.5)
	N=3056
	(±195)
11/30/86	**33.7**
	(±0.5)
	N=4004
	(±218)
12/31/89	**39.8**
	(±0.5)
	N=6412
	(±212)

Note. The table above contains sampling errors for the values presented, as well as our estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

Table V.6: Number of Active Channels Carried by Cable Systems

	Percentage of subscribers on:		
Number of active channels	12/31/84	11/30/86	12/31/89
>0-≤10	**0.4**	**0.1**	**0**
	(±0.2)[a]	(±0.1)[a]	(±0)[a]
>10-≤20	**17.9**	**7.5**	**2.3**
	(±1.7)	(±0.9)	(±0.3)[a]
>20-≤30	**44.0**	**33.3**	**11.3**
	(±2.5)	(±2.2)	(±1.1)
>30-≤40	**26.7**	**41.9**	**52.5**
	(±1.9)	(±2.2)	(±2.1)
>40-≤50	**6.7**	**8.8**	**17.5**
	(±1.0)[a]	(±1.2)	(±1.6)
>50	**4.3**	**8.4**	**16.5**
	(±0.9)[a]	(±1.3)[a]	(±1.8)

Note: The table above contains sampling errors for the values presented. Below are our estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

12/31/84, N = 3056±195;
11/30/86, N = 4004±218;
12/31/89, N = 6412±212.

[a]These sampling errors may be understated because no systems in certain strata responded this way

Table V.10: Regulation of Basic Cable Service Rates

	Percentage of:	
Regulation	**Systems**	**Subscribers**
State/local/other		
12/31/84	**69.8**	**82.4**
	(±3.1)	(±2.2)
11/30/86	**67.3**	**78.3**
	(±3.0)	(±2.0)
12/31/89	**3.5**	**1.0**
	(±1.1)	(±0.3)
Not regulated		
12/31/84	**20.3**	**17.1**
	(±2.7)	(±2.2)
11/30/86	**23.7**	**21.3**
	(±2.7)	(±2.0)
12/31/89	**96.0**	**99.0**
	(±1.2)	(±0.3)
Unsure		
12/31/84	**9.9**	**0.5**
	(±2.2)	(±0.3)
11/30/86	**9.0**	**0.4**
	(±2.1)	(±0.2)
12/31/89	**0.5**	**0**
	(±0.5)	(±0)

Note: The estimated total number of subscribers whose systems reported regulatory status are 23.1 million ± 0.9 million for 1984, 29.5 million ± 1.0 million for 1986, and 39.9 million ± 1.2 million for 1989. Also, the table above contains sampling errors for the values presented. Below are our estimates of the number of cable systems (N) that would have responded had we surveyed all systems

	Systems	**Subscribers**
12/31/84 N =	4925 ± 226	3126 ± 196
11/30/86 N =	5409 ± 227	4051 ± 218
12/31/89 N =	6525 ± 209	6466 ± 211

Table V.12: Year of Awarding or Latest Renewal of Franchise Agreement

Year	Percentage of systems
Before 1985	**67.2**
	(±2.9)
	N=6279
	(±216)
1985	**4.8**
	(±1.3)
	N=6279
	(±216)
1986	**6.1**
	(±1.4)
	N=6279
	(±216)
1987	**6.4**
	(±1.5)
	N=6279)
	(±216)
1988	**6.2**
	(±1.6)
	N=6279
	(±216)
1989	**2.4**
	(±0.8)
	N=6279
	(±216)
Other franchise arrangements	**6.8** (±1.7)
	N=6279
	(±216)

Note· The table above contains sampling errors for the values presented, as well as our estimates of the number of cable systems (N) that would have responded had we surveyed all systems

Survey Questionnaire

United States General Accounting Office

Follow-Up Survey of Cable Television Rates and Services

INTRODUCTION

The U.S. General Accounting Office (GAO) assists the U.S. Congress in evaluating federal programs and issues that affect government operations. As a part of a follow-up to a review requested by the Chairman, Subcommittee on Telecommunications and Finance, House Committee on Energy and Commerce, we are surveying cable systems to update our information on rates charged and services offered.

This survey is being conducted in cooperation with the Federal Communications Commission (FCC). The FCC requires similar data to meet its legislatively mandated reporting requirements as set forth in the Cable Communications Policy Act. By combining our efforts we are minimizing the reporting burden on the cable industry. The information you provide in this questionnaire will go to both the GAO and the FCC to help meet both agencies' needs.

This cable system was randomly selected as a part of a nation-wide sample of cable systems. Because this system represents other cable systems with a similar number of subscribers your response is **essential** to the success of the study. Furthermore, if you manage more than one cable system you may receive more than one questionnaire to complete. However, you may not receive a questionnaire for every system you manage. It is **essential** to the success of this study that you complete **all** questionnaires you receive.

Please complete this questionnaire **only** *for the cable system that is described in the label that appears on the bottom of the page.* Through the analysis of the data you provide we hope to obtain an objective update of cable rates and services. With your earnest effort to respond to the questions we should be able to provide a quality report with statistically valid information to the Congress.

Your answers in this questionnaire will be confidential. Your responses will be combined with those of other cable systems and will be **reported in summary form only.** No individual cable system's or company's responses will be identified or reported individually.

Please complete this questionnaire within 10 days of its receipt. A self-addressed business reply envelope is enclosed for returning your completed questionnaire.

Space is provided at the end of this questionnaire for any comments or insights into cable television rates you may wish to make. If you have any questions please call either Tom Heck or Jackie Cook at (202) 634-6068.

We sincerely appreciate your effort in filling out this questionnaire and helping us provide accurate and timely information to the Congress. If the business-reply envelope has been misplaced, please return your completed questionnaire to:

Mr. John M. Ols, Jr., Director
U.S. General Accounting Office
Room 4476
441 G St., N.W.
Washington, DC 20548

5. Please fill out the following tables concerning this cable system's **basic** service based on the instructions and definitions below.

A. In **Column A** please provide the number of basic channels offered by this cable system that corresponds to the specific tier of basic service for the dates listed. *(Enter number)*

EXAMPLE: If your "First Tier" has 20 channels and your "Second Tier" has an **additional** 30 channels, then enter 20 for "First Tier" and 50 for "Second Tier"

B. In **Column B** please enter the amount this cable system charged monthly for basic service, including all franchise fees, for the specific tier of basic service for the dates listed. *(Enter dollars and cents)*

DEFINITION: Basic service generally refers to any service tier which includes the retransmission of over-the-air television signals (e.g., signals that can be received without special equipment such as antennas on tall masts). Basic service may also include a number of cable networks such as CNN, ESPN, C-SPAN, etc.

EXAMPLE: If this cable system charges $10.95 for the "First Tier" of basic service and charges an **additional** $5.00 for the "Second Tier", then enter $10.95 for the "First Tier" and $15.95 for the "Second Tier."

REMEMBER: If you checked in question 2 that all subscribers have the same rate structure, then answer the following questions for **all** subscribers; if you checked that there were different rate structures, then answer only for the subscribers you listed in question 3.

NOTE: If this system has only **ONE** tier of basic service answer the table for **Tier I only.**

Tier I: Please complete Columns A and B for the basic service tier with the **lowest** level of basic service.

	COLUMN A	**COLUMN B**
BASIC SERVICE TIER I	Number of Basic Channels Offered	Monthly Basic Service Rate Charge
1. December 31, 1984		$.
2. December 31, 1985		$.
3. November 30, 1986		$.
4. December 31, 1987		$.
5. December 31, 1988		$.
6. December 31, 1989		$.

REMEMBER: If you checked in question 2 that all subscribers have the same rate structure, then answer the following questions for **all** subscribers; if you checked that there were different rate structures, then answer **only** for the subscribers you listed in question 3.

6. Corresponding to the basic service for Tiers I, II, and III you described in question 5, please specify how many subscribers were billed for the following tiers of basic service for the dates listed. Also please enter the total number of subscribers in the last column.

DEFINITION: Subscribers refers to the total number of individual subscribers and subscribers billed on a bulk-rate basis (e.g., if the basic tier service is $10 and a 200-unit apartment building is billed $500, then you would count $500/$10=50 subscribers).

NOTE: The total should equal the sum of Tiers I, II, and III **UNLESS** this cable system has more than 3 basic service tiers.

	Tier I	Tier II	Tier III	Total Number of Subscribers
1. December 31, 1984				
2. December 31, 1985				
3. November 30, 1986				
4. December 31, 1987				
5. December 31, 1988				
6. December 31, 1989				

II. PREMIUM SERVICE INFORMATION

REMEMBER: If you checked in question 2 that all subscribers have the same rate structure, then answer the following questions for **all** subscribers; if you checked that there were different rate structures, then answer **only** for the subscribers you listed in question 3.

8. For the following dates, what was the number of premium channels offered by this cable system? **Please exclude** pay-per-view channels. *(Enter number)*

	Number of Premium Channels
1. December 31, 1984	
2. November 30, 1986	
3. December 31, 1989	

9. For the following dates, how many **subscribers** (pay households) paid for one or more premium channels on this cable system? *(Enter number)*

	Number of Subscribers
1. December 31, 1984	
2. November 30, 1986	
3. December 31, 1989	

10. For the following dates, what was a subscriber's **monthly** non-package (a la carte) rate for each of the premium channels listed? (Enter dollars and cents) (If this cable system does not offer a non-package (a la carte) rate for the listed premium channel, then check "Not Offered A La Carte"; if this system does not carry this channel then check "Not Offered At All".)

	Per Month Charge (1)	Not Offered A La Carte (2)	Not Offered At All (3)
Home Box Office			
1. December 31, 1984	$.		
2. November 30, 1986	$.		
3. December 31, 1989	$.		
Showtime			
4. December 31, 1984	$.		
5. November 30, 1986	$.		
6. December 31, 1989	$.		
Cinemax			
7. December 31, 1984	$.		
8. November 30, 1986	$.		
9. December 31, 1989	$.		

15. For the dates listed on each of the following tables please enter the number of channels of each type listed that were available on your cable system for each basic service tier. *(Enter number for each)*

DEFINITIONS:

Local Signal: a signal that is (1) "significantly viewed" in the franchise area or (2) an acceptable signal in the area as defined by the Federal Communications Commission (FCC). In general these are signals that can be received over-the-air without special equipment (e.g., antenna on a tall mast).

Distant Signal: a signal from another market that can only be received with special equipment (e.g., antenna on a tall mast, micro-wave receiver, or satellite dish). These include "superstations" such as WTBS, WWOR, and WGN as well as stations from closer markets.

Basic Cable Networks: networks that are not associated with any market and can only be received with a satellite dish. These are channels that are usually associated only with cable reception and are typically included in the basic service charge (e.g., ESPN, CNN, USA, MTV, etc.).

Leased Access Channels: channels set aside for third parties not affiliated with the cable system generally for commercial purposes.

Other: channels not included in other categories such as access channels (government, local, public, or educational), automated services, cable operator originated channels, or other services that use a full video channel. **DO NOT** include radio stations as separate channels.

NOTE: If your Tier I has 20 channels please account for all 20 in the Tier I table. If your Tier II has an additional 30 channels then please account for **ALL** 50 channels in the Tier II table.

Tier I - Lowest Tier of Basic Service

	Dec. 31, 1984	Nov. 30, 1986	Dec. 31, 1989
1. Local network affiliates (ABC, NBC, CBS)			
2. Other local commercial (Independent)			
3. Local non-commercial (Public)			
4. Distant network affiliates (ABC, NBC, CBS)			
5. Other distant commercial (Independent)			
6. Distant non-commercial (Public)			
7. Basic cable networks			
8. Leased access channels			
9. Other			

20. What was the total number of homes in this cable system's franchise area and what was the number of homes passed by this cable system on the dates listed? *(Enter number for each)*

DEFINITION: Number of homes passed means the number of homes to which cable service is available without a line extension.

	Total Number of Homes	Homes Passed
1. December 31, 1984		
2. November 30, 1986		
3. December 31, 1989		

21. For the dates listed, enter the number of miles of plant maintained by this cable system? *(Enter number in miles)*

DEFINITION: Miles of plant is the length, in miles, of cable passing all homes from the headend to the furthest home passed.

_________________ Miles as of Dec. 31, 1984

_________________ Miles as of Nov. 30, 1986

_________________ Miles as of Dec. 31, 1989

22. Which of the following levels of government, if any, regulated (approved) the rate this cable system charged for basic service on the dates listed? *(For each date check all that apply)*

DEFINITION: For the purposes of this question, "basic service" refers to any service that includes the retransmission of over-the-air signals.

NOTE: Cable rates were deregulated as of December 29, 1986 by the Cable Act.

	State Government (1)	Local Government or Municipality (2)	Not Regulated (3)	Other (4)	Unsure (5)
1. December 31, 1984					
2. November 30, 1986					
3. December 31, 1989					

27. As of December 31, 1989, did any of the 25 largest multiple system operators (MSOs) listed below hold at least 10% ownership in this cable system? *(Check one)*

1. ☐ Yes
2. ☐ No
3. ☐ Unsure

25 Largest MSOs

Adelphia Communications
ATC-Warner-Paragon
Cablevision Industries
Cablevision Systems
Century Communications
Comcast
Continental Cablevision
Cooke Cablevision
Cox Cable Communications
Falcon Cable TV
Jones Intercable
Maclean Hunter
MultiVision Cable
Newhouse Broadcasting
Paragon Communications
Post-Newsweek Cable
Prime Cable
Sammons Communications
Scripps Howard
TCA Cable
TeleCable
Tele-Communications Inc. (TCI)
Tele-Media
Times Mirror Cable TV
Viacom Cable

28. What is the geographic location of this cable system's franchise area?

____________________ City (Largest, if more than one)

____________________ County

____________________ State

____________________ (Central) Zip Code

29. Does this cable system have a cable rate card available for December 1989? *(Check one)*

1. ☐ Yes ——→ *Please enclose with completed questionnaire*
2. ☐ No

List of Respondents

In chapter 3, we use terms such as "cable systems," "cities," and "alternative video distributors" to categorize organizations that responded to FCC's Notice of Inquiry and Notice of Proposed Rulemaking and that testified at congressional hearings. This appendix identifies respondents in each of our broad categories.

Government Agencies

Department of Justice
Federal Trade Commission and its San Francisco Regional Office
National Telecommunications and Information Administration

Cable Representatives

National Cable Television Association
Time-Warner Incorporated
Telesat Cablevision Incorporated
Competitive Cable Association
Turner Broadcasting System Incorporated
People's Choice TV
Cable Television Operators and Associations
Bresnan Communications
Cox Cable Communications
Tele-Communications Incorporated
Cable Television Laboratories Incorporated
Hearst/ABC-Viacom Entertainment Services
The Discovery Channel
Showtime Networks Incorporated
USA Network
Heritage Communications Incorporated
Adelphia Communications Corporation, et al.
InterMedia Partners
Cablevision Industries Corporation, et al.

Broadcasters

National Association of Broadcasters
National Broadcasting Company Incorporated
WVLA-TV

Telephone Companies

United States Telephone Association
Southwestern Bell Corporation
GTE Service Corporation and GTE Laboratories
Bell Atlantic Telephone Companies
Organization for the Protection and Advancement of Small Telephone

Other

Consumer Federation of America
Motion Picture Association of America Incorporated
Glasgow Electric Plant Board and the American Public Power Association
John McLaughlin, Executive Director of Program on Information Resources Policy, Harvard University
Comments of Bruce Egan and Douglas Conn
Comments of Richard Leghorn, Cable Investor

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Companies
Panhandle Telephone Cooperative Incorporated
HunTel Systems Incorporated

Alternative Video Distributors

National Rural Telecommunications Cooperative
The Wireless Cable Association Incorporated
Joint Comments of National Satellite Programming Network, Beach Communications, Mid-Atlantic Communications, Stellar Communications, Telecom Satellite Systems, and 21st Century Technology Group
American Telecasting Incorporated
Multi-Micro Incorporated
Pee Dee Electric Cooperative

States

State of Hawaii
West Virginia Public Service Commission
North Carolina Utilities Commission
National Association of Regulatory Utility Commissioners

Local/City Representatives

National League of Cities
National Association of Telecommunications Officers and Advisors
City of New York; City of Huntsville, Alabama; City of Portland, Oregon; and the Northwest Municipal Cable Council in conjunction with the National League of Cities and the United States Conference of Mayors
City of Los Angeles, California
Joint Comments of the City of Dubuque, Iowa; Montgomery County, Maryland; and the City of St. Louis, Missouri
City of Boston, Massachusetts
City of Laredo, Texas
City of Augusta, Georgia, on behalf of the National League of Cities and the United States Conference of Mayors
City of Ithaca, New York
City of Tucson, Arizona

Please make a copy of your completed questionnaire before returning it in the enclosed postage paid envelope. In the event we need to contact you to obtain clarification of any of the information in this questionnaire, please provide the following information.

Person completing this questionnaire:

______________________________ Name

______________________________ Title

(_____)______________________ Telephone number

30. If you have any additional comments on the issues of cable rates and services, please feel free to add them below or on an additional sheet if necessary.

THANK YOU FOR YOUR COOPERATION

U S GOVERNMENT PRINTING OFFICE 1990 0—943-222

23. As of December 31, 1989, with how many separate jurisdictions, if any, did this cable system have formal franchise agreements?

DEFINITION: A franchise is an authorization, typically issued by a city or county, allowing a cable operator to construct or operate a cable system. *(Check one)*

1. ☐ Franchise agreement with one jurisdiction
2. ☐ Franchise agreements with 2 - 5 jurisdictions
3. ☐ Franchise agreements with more than 5 jurisdictions
4. ☐ No formal franchise agreements ——→ *SKIP TO Q. 25*
5. ☐ Other "franchising" arrangements; such as municipal ownership and co-ops ——→ *SKIP TO Q. 25*

24 Please indicate for either the franchise agreement that includes the most subscribers, or the single franchise agreement if your system operates under only one, the year the franchise was awarded and the year the franchise will expire. *(Enter years)*

_____________ Year franchise awarded

_____________ Year franchise expires

25. On December 31, 1989 did this cable system offer low income or elderly discount rates? *(Check one)*

1. ☐ Yes, this system offered a discount rate(s) for low income *or* elderly subscribers
2. ☐ This system did **NOT** offer a discount rate(s) for low income or elderly subscribers

26. What was the **TOTAL REVENUE PER SUBSCRIBER** directly received by this cable system from all subscriber services for the months listed? *(Enter dollars and cents)*

DEFINITION: Subscriber revenue includes basic service, premium services, pay-per-view, installation charges, and other revenues such as additional outlets, guides, and convertor rentals. Please **EXCLUDE** revenues from advertising, institutional networks, leased access, home shopping royalties, and other non-subscriber revenues.

	Total Monthly Revenue per Subscriber
1. December, 1984	$.
2. December, 1985	$.
3. December, 1986	$.
4. December, 1987	$.
5. December, 1988	$.
6. December, 1989	$.

Tier II - Second Tier of Basic Service

NOTE: Complete this table **ONLY** if this system has at least two tiers of basic service. If your system has 20 channels in Tier I and an additional 30 channels in Tier II then please account for **ALL** 50 channels in the Tier II table.

	Dec. 31, 1984	Nov. 30, 1986	Dec. 31, 1989
1. Local network affiliates (ABC, NBC, CBS)			
2. Other local commercial (Independent)			
3. Local non-commercial (Public)			
4. Distant network affiliates (ABC, NBC, CBS)			
5. Other distant commercial (Independent)			
6. Distant non-commercial (Public)			
7. Basic cable networks			
8. Leased access channels			
9. Other			

IV. BACKGROUND INFORMATION

16. For the dates listed below how many network affiliates (ABC, NBC, and CBS), other commercial stations (Independent), and noncommercial stations (Public) were available over-the-air (significantly viewed) in this cable system's franchise area? *(Enter number for each)*

	Network Affiliates	Other Commercial Stations	Noncommercial Stations
1. December 31, 1984			
2. November 30, 1986			
3. December 31, 1989			

17. In what year did cable service first become available in this franchise area? *(Enter year)*

19 ________________

18. Has this system changed ownership since Dec. 31, 1984? *(Check one)*

1. ☐ Yes, this system has changed ownership
2. ☐ This system has not changed ownership ——→ *SKIP TO Q. 20*
3. ☐ Unsure if this system has changed ownership ——→ *SKIP TO Q. 20*

19. To the best of your knowledge, how many times did this cable system change ownership in each of the following years? *(Enter number for each year; if did not change in a year, enter 0)*

1985 ________________

1986 ________________

1987 ________________

1988 ________________

1989 ________________

11. At any time during the period from December 31, 1984 to December 31, 1989, did this cable system offer monthly discounts to subscribers who ordered more than one premium channel as a package or combination? *(Check one)*

1. ☐ Yes, this cable system offered a premium combination discount
2. ☐ This cable system did not offer a premium channel combination discount ——→ *SKIP TO Q. 13*

12. Consider this system's most popular two, three, and four premium channel discount combinations. **Excluding** the basic service tier charge and other discount options (such as program guides, remote control convertors, etc.), how much did this cable system charge per month on the dates listed for the following combinations? *(Enter dollars and cents)* (If this system did not offer a combination, then check the column "Not Available".)

	Two channel		Three channel		Four channel	
	Charge (1)	Not Available (2)	Charge (1)	Not Available (2)	Charge (1)	Not Available (2)
1. December 31, 1984	$.		$.		$.	
2. November 30, 1986	$.		$.		$.	
3. December 31, 1989	$.		$.		$.	

III. PROGRAMMING INFORMATION

13. For the dates listed below, what was the total channel capacity and the number of active channels for this cable system? *(Enter number for each)*

	Channel Capacity	Active Channels
1. December 31, 1984		
2. November 30, 1986		
3. December 31, 1989		

14. For the dates listed below, what was the number of active channels available through basic service, premium service (additional monthly charges), and pay-per-view service (charges for one-time viewing)? *(Enter number for each)*

	Basic Channels	Premium Channels	Pay-Per-View Channels
1. December 31, 1984			
2. November 30, 1986			
3. December 31, 1989			

7. Consider the following ways that subscribers can pay for options that may be available from this system:

- **NOT AVAILABLE:** Option is not offered
- **INCLUDED IN TIER CHARGE:** Option is included in the cost of the basic service tier
- **EXTRA MONTHLY CHARGE:** Option is available only for an additional monthly charge
- **ONE-TIME CHARGE:** Option is available only for an additional one-time charge

In the following table, please check the way that best describes how subscribers in each basic service tier paid for these options as of December 31, 1989. If you checked either "Extra Monthly Charge" or "One-Time Charge" please enter the amount charged (excluding any deposits or installation charges) in the column provided. *(Enter dollars and cents)*

	CHECK ONE				
	Not Available (1)	Included In Tier Charge (2)	Extra Monthly Charge (3)	One-Time Charge (4)	Amount of Additional Charge (1)
A. One Additional Outlet					
1. Tier I					$.
2. Tier II					$.
3. Tier III					$.
B. Remote Control Convertor					
4. Tier I					$.
5. Tier II					$.
6. Tier III					$.
C. Set Top Convertor					
7. Tier I					$.
8. Tier II					$.
9. Tier III					$.
D. System Program Guide					
10. Tier I					$.
11. Tier II					$.
12. Tier III					$.

Tier II: Please complete Columns A and B for the basic service tier with the next level of service. If this cable system does not have a second level of basic service, then skip to question 6.

EXAMPLE: If your "First Tier" has 20 channels and your "Second Tier" has an **additional** 30 channels, then enter 50 for "Second Tier". If this cable system charges $10.95 for the "First Tier" of basic service and charges an **additional** $5.00 for the "Second Tier", then enter $15.95 for the "Second Tier."

	COLUMN A	COLUMN B
BASIC SERVICE TIER II	Number of Basic Channels Offered	Monthly Basic Service Rate Charge
1. December 31, 1984		$.
2. December 31, 1985		$.
3. November 30, 1986		$.
4. December 31, 1987		$.
5. December 31, 1988		$.
6. December 31, 1989		$.

Tier III: Please complete Columns A and B for the basic service tier with the next level of service. If this cable system does not have a third level of basic service, then skip to question 6.

	COLUMN A	COLUMN B
BASIC SERVICE TIER III	Number of Basic Channels Offered	Monthly Basic Service Rate Charge
1. December 31, 1984		$.
2. December 31, 1985		$.
3. November 30, 1986		$.
4. December 31, 1987		$.
5. December 31, 1988		$.
6. December 31, 1989		$.

1. On December 31, 1989, how many subscribers did this cable system serve? *(Enter number)*

   DEFINITION: Subscribers refers to the total number of individual subscribers and subscribers billed on a bulk-rate basis (e.g., if the basic tier service is $10 and a 200-unit apartment building is billed $500, then you would count $500/$10=50 subscribers).

   ________________ Total number of subscribers

2. Were any subscribers to this cable system subject to different rate structures based on factors such as geographic location or date of connection? Do not include short-term promotions or discounts. *(Check one)*

   1. ☐ Yes
   2. ☐ No ——→ *SKIP TO Q. 4*

3. Of the total number of subscribers indicated in question 1, how many were subject to the most common rate structure? *(Enter number)*

   ________________ Number of subscribers belonging to the most common rate structure

IMPORTANT PLEASE READ: Complete the rest of this questionnaire only for those subscribers you listed in **QUESTION 3**. For example, if you had a total of 10,000 subscribers but only 9,000 listed in Question 3 then answer the rest of the questionnaire **ONLY** for the 9,000 subscribers.

I. BASIC SERVICE INFORMATION

Basic service generally refers to any service tier that includes the retransmission of over-the-air television signals (e.g., signals that can be received without special equipment such as antennas on tall masts). Basic service may also include a number of cable networks such as CNN, ESPN, etc. By first tier we mean the lowest level of service while the second tier and third tier (etc.) represent expanded basic service.

If you only have **ONE** tier of basic service, answer questions 4 - 7 **ONLY** for Tier I.

4. How many tiers of basic service did this cable system offer on the following dates? *(Check one box per date)*

	Number of Basic Service Tiers Offered			
	1	2	3	4 or more
1. December 31, 1984				
2. November 30, 1986				
3. December 31, 1989				

Table V.13: Year of Expiration of Current Franchise Agreement

Year	Percentage of systems
1990	**3.1**
	(±0.9)
	N=6267
	(±216)
1991	**3.6**
	(±0.9)
	N=6267
	(±216)
1992	**4.1**
	(±1.0)
	N=6267
	(±216)
1993	**3.8**
	(±1.0)
	N=6267
	(±216)
1994	**4.8**
	(±1.1)
	N=6267
	(±216)
1995	**7.1**
	(±1.5)
	N=6267
	(±216)
After 1995	**64.6**
	(±2.8)
	N=6267
	(±216)
Other franchise arrangements	**8.6**
	(±1.9)
	N=6267
	(±216)

Note: The table above contains sampling errors for the values presented, as well as our estimates of the number of cable systems (N) that would have responded had we surveyed all systems

Table V.11: Number of Separate Jurisdictions Covered by Franchise Agreements as of 12/31/89

Number of jurisdictions	Percentage of systems
1	**52.6**
	(±2.8)
2 to 5	**29.1**
	(±2.4)
More than 5	**11.7**
	(±1 3)
No formal franchise agreement	**5.3**
	(±1 5)
Other	**1.3**
	(±0.8)

Note: The table above contains sampling errors for the values presented Our estimate of the number of cable systems (N) that would have responded had we surveyed all systems is N = 6514±210

Table V.7: Changes in Cable System Ownership Between 1985 and 1989

Ownership	Percentage of systems
Changed one time	**39.9**
	(±2.9)
Changed more than once	**13.0**
	(±2.0)

Note. The table above contains sampling errors for the values presented. Our estimate of the number of cable systems (N) that would have responded had we surveyed all systems is N = 6524±209

Table V.8: Percent Changes in Cable System Ownership Between 1985 and 1989

Year of ownership change	Percentage of systems
1985	**7.8**
	(±1.5)
1986	**15.1**
	(±2.0)
1987	**14.5**
	(±2.1)
1988	**17.7**
	(±2.4)
1989	**12.9**
	(±2.1)

Note. The table above contains sampling errors for the values presented. Our estimate of the number of cable systems (N) that would have responded had we surveyed all systems is N = 6524±209

Table V.9: Availability of Discounts for Low-Income or Elderly Subscribers as of 12/31/89

Availability	Percentage of systems
Discounts offered	**18.0**
	(±2.1)

Note. The table above contains sampling errors for the values presented Our estimate of the number of cable systems (N) that would have responded had we surveyed all systems is N = 6315±214.

Table V.3: Number of Over-the-Air Channels Available in Cable Community

Date	Number of channels available to average subscriber
12/31/84	**7.9**
	(±0.2)
	N=2973
	(±193)
11/30/86	**8.4**
	(±0.2)
	N=3870
	(±216)
12/31/89	**8.9**
	(±0.2)
	N=6230
	(±216)

Note: The table above contains sampling errors for the values presented, as well as our estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

Table V.4: Number of Over-the-Air Channels Available in Cable Community

	Percentage of subscribers on:		
Number of channels available	12/31/84	11/30/86	12/31/89
0	**0.8**	**0.6**	**0.5**
	(±0.3)[a]	(±0.2)[a]	(±0.2)[a]
1-3	**5.8**	**4.0**	**2.8**
	(±1.1)	(±0.8)	(±0.6)[a]
4-6	**37.2**	**31.4**	**27.4**
	(±2.4)	(±2.2)	(±2.0)
7-9	**31.0**	**35.1**	**33.8**
	(±2.1)	(±2.1)	(±2.0)
10-12	**12.4**	**15.8**	**19.5**
	(±1.7)	(±1.7)	(±1.9)
Over 12	**12.7**	**13.0**	**16.0**
	(±1.6)	(±1.5)	(±1.5)

Note: The table above contains sampling errors for the values presented. Below are our estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

12/31/84, N = 2973±193;
11/30/86, N = 3870±216,
12/31/89, N = 6230±216.

[a]These sampling errors may be understated because no systems in certain sampling strata responded this way.

Table IV.2: Revenue Generated per Subscriber by Systems That Were Regulated/Not Regulated Prior to Effective Date of Cable Act

	Average monthly revenue per subscriber in systems that in 1986 were:[a]	
Date	**Regulated**	**Not regulated**
12/31/84	**$19.98**	**$19.70**
	(±.28)	(±.49)
	N=1544	N=562
	(±147)	(±96)
12/31/85	**20.99**	**20.90**
	(±.25)	(±.47)
	N=1857	N=638
	(±163)	(±106)
11/30/86	**21.78**	**22.11**
	(±.23)	(±.53)
	N=2252	N=793
	(±178)	(±120)
12/31/87	**23.40**	**23.32**
	(±.23)	(±.51)
	N=2627	N=915
	(±191)	(±132)
12/31/88	**25.04**	**25.24**
	(±.24)	(±.48)
	N=2868	N=955
	(±199)	(±134)
12/31/89	**26.41**	**26.74**
	(±.25)	(±.51)
	N=3043	N=1052
	(±203)	(±142)
Percent Increase 1986-1989	**21.3**	**20.9**
	(±1.7)	(±2.7)

Note: The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

[a]All these systems were not regulated as of 12/31/89.

Table III.3: Monthly Charge for Packages of Premium Channels

	Average charge per cable system for:		
Date	Two channels	Three channels	Four channels
12/31/84	**$18.33**	**$25.88**	**$34.28**
	(± .36)	(± 58)	(± .54)
	N=1536	N=884	N=563
	(±135)	(±83)	(±59)
11/30/86	**18.33**	**26.03**	**34.17**
	(± 29)	(± 37)	(± .42)
	N=2429	N=1542	N=1033
	(±169)	(±107)	(±82)
12/31/89	**17.50**	**24.61**	**31.95**
	(±.20)	(±.33)	(±.48)
	N=3429	N=2430	N=1525
	(±203)	(±161)	(±110)

Note: The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems

Table III.4: Cable Subscribers Purchasing One or More Premium Channels

Date	Percentage of subscribers
12/31/84	**55.6**
	(±1 2)
	N=2549
	(±180)
11/30/86	**53.7**
	(±0 9)
	N=3497
	(±209)
12/31/89	**52.2**
	(±0.8)
	N=6111
	(±218)

Note: The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems The estimated number of subscribers whose cable systems reported both total and premium subscription data is 19.9 million ± 0.8 million in 1984, 26 9 million ± 1.0 million in 1986, and 38.5 million ± 1 1 million in 1989

Availability and Rates for Cable Television Options

Table II.1: Availability of Options With Most Popular Basic Service on 12/31/89

	Percentage of systems providing:			
Availability	**Added outlets**	**Remote control**	**Set-top converter**	**Program guide**
Included in basic charge	**12.9**	**3.6**	**50.9**	**27.8**
	(±2 0)	(±0.9)	(±3.0)	(±2.7)
Added monthly charge	**77.2**	**72.2**	**23.8**	**18.9**
	(±2.6)	(±2.9)	(±2.8)	(±2.3)
One-time charge	**8.3**	**6.7**	**9.2**[b]	[a]
	(±1.9)	(±1.8)	(±2.1)[b]	
Not available	**1.5**	**17.4**	**16.1**	**53.3**
	(±0.8)[b]	(±2.6)	(±2.5)	(±3.1)

Note. The table above contains sampling errors for the values presented Below are our estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

Added outlets, N = 6138±218,
remote controls, N = 5810±223;
set-top converter, N = 5672±225;
program guide, N = 5580±226.

[a]None of the cable systems responding to our survey answered this way.

[b]These sampling errors may be understated because no systems in certain sampling strata responded this way

Table II.2: Optional Services Offered at Extra Charge With Most Popular Basic Service on 12/31/89

	Average extra charge per cable system	
Optional service	**Monthly charge**	**One-time charge**
Additional outlet	**$2.99**	**$17.69**
	(±.10)	(±1.68)
	N=4711	N=451
	(±229)	(±113)
Remote control	**3.38**	**65.58**
	(±.06)	(±5.60)
	N=4164	N=391
	(±220)	(±104)
Set-top converter	**2.03**	**28.54**
	(±.09)	(±2.74)[a]
	N=1339	N=487
	(±169)	(±117)
Program guide	**1.36**	[b]
	(± 07)	
	N=1052	
	(±133)	

Note. The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems

[a]This sampling error may be understated because no systems in certain sampling strata responded this way

[b]None of the cable systems responding to our survey answered this way

Table I.8: Rates for Most Popular Basic Service Provided by Systems That Were Regulated/Not Regulated Prior to Effective Date of Cable Act

Date	Average monthly charge per subscriber in systems that in 1986 were:[a] Regulated	Not regulated
12/31/84	**$9.62**	**$10.58**
	(± 10)	(± 24)
	N=2045	N=768
	(±163)	(±118)
12/31/85	**10.36**	**11.44**
	(± 11)	(± 23)
	N=2258	N=856
	(±174)	(±127)
11/30/86	**11.55**	**12.31**
	(± 11)	(± .22)
	N=2694	N=988
	(±190)	(±137)
12/31/87	**13.46**	**13.50**
	(± 11)	(± 17)
	N=2998	N=1129
	(±200)	(±148)
12/31/88	**14.93**	**14.94**
	(± 11)	(± 30)
	N=3169	N=1138
	(±205)	(±148)
12/31/89	**16.42**	**16.24**
	(± 10)	(± 29)
	N=3358	N=1202
	(±208)	(±152)
Percent increase 1986-89	**42.1**	**31.9**
	(±2 1)	(±3.5)

Note The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems

[a]All these systems were not regulated as of 12/31/89

Table I.5: Dollar Changes in Basic Service Rates Since Deregulation

	Percentage of subscribers whose rates changed between 11/30/86 and 12/31/89 for:	
Change in rate	**Most popular service**	**Lowest priced service**
≤$2.00	**12.0**	**17.6**
	(±1.9)	(±2.1)
>$2.00-≤$4.00	**30.0**	**26.5**
	(±2.0)	(±2.1)
>$4.00-≤$6.00	**36.6**	**33.9**
	(±2.2)	(±2.4)
>$6.00-≤$8 00	**16.8**	**17.6**
	(±1 7)	(±2.0)
>$8.00-≤$10.00	**4.0**	**3.9**
	(0 9)	(±1.1)
>$10.00-≤$12.00	**0.4**	**0.1**
	(±0 1)[a]	(±0.0)[a]
>$12.00	**0**	**0.3**
	(±0)[a]	(±0.1)[a]

Note: The table above contains sampling errors for the values presented. Below are our estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

Most popular service, N = 3968±218;
lowest priced service, N = 3918±218

[a]These sampling errors may be understated because no systems in certain sampling strata responded this way

Table I.6: Number of Tiers of Basic Service Offered by Cable Systems

	Percentage of systems offering:		
Date	**One tier**	**Two tiers**	**Three tiers +**
12/31/84	**75.1**	**21.9**	**3.1**
	(±2.3)	(±2.1)	(±1.1)
11/30/86	**74.3**	**22.5**	**3.2**
	(±2.3)	(±2.2)	(±0.9)
12/31/89	**83.4**	**13.5**	**3.1**
	(±1.9)	(±1.7)	(±0.9)

Note The table above contains sampling errors for the values presented. Below are our estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

12/31/84, N = 4585±224,
11/30/86, N = 5258±227,
12/31/89, N = 6527±209

Table I.3: Average Monthly Charge per Basic Channel

Date	Average subscriber charge per channel for: Most popular service	Lowest priced service
12/31/84	**$.43**	**$.46**
	(±.01)	(±.01)
	N=2971	N=2968
	(±195)	(±195)
12/31/85	**.43**	**.47**
	(±.01)	(±.01)
	N=3336	N=3335
	(±206)	(±206)
11/30/86	**.44**	**.47**
	(±.01)	(±.01)
	N=3980	N=3995
	(±218)	(±218)
12/31/87	**.45**	**.48**
	(±.01)	(±.01)
	N=4696	N=4701
	(±227)	(±227)
12/31/88	**.47**	**.49**
	(±.01)	(±.01)
	N=5380	N=5380
	(±227)	(±227)
12/31/89	**.49**	**.51**
	(±.01)	(±.01)
	N=6283	N=6284
	(±215)	(±215)

Note: The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

Changes in Basic Cable Rates and Services

Table I.1: Average Monthly Basic Service Charge per Subscriber

Date	Average basic service charge per subscriber for: Most popular service	Lowest priced service
12/31/84	**$9.84**	**$9.50**
	(±.10)	(±.09)
	N=3033	N=2968
	(±196)	(±195)
12/31/85	**10.60**	**10.19**
	(±.10)	(±.10)
	N=3385	N=3335
	(±207)	(±206)
11/30/86	**11.71**	**11.14**
	(±.10)	(±.11)
	N=4002	N=3995
	(±218)	(±218)
12/31/87	**13.47**	**13.01**
	(±.10)	(±.10)
	N=4706	N=4701
	(±227)	(±227)
12/31/88	**14.91**	**14.50**
	(±.11)	(±.11)
	N=5405	N=5380
	(±227)	(±227)
12/31/89	**16.33**	**15.95**
	(±.10)	(±.10)
	N=6289	N=6284
	(±215)	(±215)
Percent increase 1988-89	**9.5**	**10.0**
	(±1.4)	(±1.5)
1986-89	**39.4**	**43.2**
	(±1.9)	(±2.1)

Note: The table above contains sampling errors for the values presented, as well as estimates of the number of cable systems (N) that would have responded had we surveyed all systems.

If localities are charged with the major responsibility for regulating local cable rates, it may be desirable for FCC to take a greater role in establishing a regulatory framework. The Cable Act authorizes FCC to establish a framework for local rate regulation, but current FCC rules contain only procedural requirements. FCC is considering requiring cable systems to adopt accounting standards that would enable communities to better identify costs and rates of return. FCC is also considering re-instituting the annual financial reporting system in place prior to 1983. Under this system, cable operators were required to submit detailed financial information to FCC.

Redefinition of Cable Service Subject to Regulation

Regardless of whether rate regulation is returned to the local communities or granted to FCC, a decision is needed on what portion of cable service to regulate. In legislative proposals and comments submitted to FCC, a wide range of views and opinions has emerged. At one end of the spectrum, several proposals would regulate only basic cable "lifeline" service, which generally would include the national network channels, one public broadcasting channel, and any local independent channels. At the other extreme, the National League of Cities and others proposed to grant franchising authorities the right to regulate all cable service, both basic and premium, even if it was never before regulated.[6]

The existing standard, like that prior to the enactment of the Cable Act, is that only basic service is subject to regulation. (Currently, any service that includes over-the-air channels is regarded as a basic service.) Thus, cable systems might be able to shift some of their channels away from regulated basic service by setting up multiple service tiers. This would allow them to continue to confine rate regulation to only a portion of their overall subscriber offerings. A regulatory scheme that controls only a fraction of a cable subscriber's monthly bill is not likely to have much regulatory impact. If federal law continues to prohibit regulation of more than basic service, regulatory authorities must be able to determine a minimum standard for basic service. FCC would presumably be called upon to establish a federal regulatory framework for these determinations by state and local authorities.

[6]Comments of the City of New York, National League of Cities, United States Conference of Mayors, City of Huntsville, Alabama, City of Portland, Oregon, and the Northwest Municipal Cable Council to FCC Notice of Inquiry (MM Docket 89-600), pp. 22-23.

cable community of a competing multichannel video provider, such as MMDS, DBS, or a second cable system. Since industry sources estimate that very few cable systems face competition from these alternative sources, the majority of cable operators would be subject to regulation under this standard at least for the next few years, until alternatives become viable sources of competition.

Another possible standard for effective competition, suggested by a few commenters and legislative proposals, is the "subscription threshold standard." Under this standard, if the percentage of subscribers in a community exceeds a certain threshold, then it is presumed that there is no effective competition; a high penetration rate beyond that threshold is interpreted to mean that consumers have no other choice than to subscribe. However, as FCC pointed out in its Notice of Proposed Rulemaking, the use of a threshold standard[3] also can have the perverse effect of penalizing cable systems for offering a popular service that is attracting new customers, and possibly may encourage systems to raise rates to drive away customers and thereby avoid regulation.

Greater FCC Role in Cable Regulation

Instead of returning the power to oversee rates to thousands of local franchise authorities, some proposals would assign it to FCC. The goal of these proposals is to remove rate setting from the political decision-making process of local communities, where the cable industry claims delays frequently occurred in the past.

There are two principal options for regulation at the federal level: traditional rate-of-return regulation and price-cap regulation. Rate-of-return regulation would require FCC to estimate both the cost and demand conditions facing cable systems and set a rate that just recovers cable operators' costs (including what their capital could have earned if invested elsewhere). An obvious disadvantage of this approach is that it would impose a heavy administrative burden on FCC by requiring it to deal, in a timely manner, with thousands of rate increase requests each year.

Under price-cap regulation, cable systems could be allowed to annually raise their basic rates without case-by-case approval from FCC or local regulatory authorities. FCC could set the amount or the percentage of the rate adjustments, possibly in line with increases in the cost of living. This approach avoids the need to individually adjudicate rate increase requests.

[3]Several proposals we reviewed recommended a subscription threshold of 30 percent.

Focus on Market Competition

Many cable policy proposals seek to achieve a more competitive environment by eliminating legal barriers to new entrants in the video programming market. Potential rivals of existing cable operators include second cable systems (overbuilds), MMDS, DBS, and provision of cable services by telephone companies. However, eliminating legal entry restrictions alone will not, in the near future, ensure the entry of second cable systems or new technologies.

The real barrier to entry by second cable systems appears to be the inherent characteristics of existing cable television technology: the cost of providing service in a given area is lowest when provided by a single cable system. This is because the presence of more than one operator in a given cable market necessitates duplicate investment in receiving equipment and wiring. The few instances of successful head-to-head competition between cable systems, even in communities where franchising authorities have encouraged the entry of a second cable system, illustrate this point.

Thus, competitive solutions to the cable industry's market power tend to stress the emergence of new, alternative technologies. But even if legal barriers are removed, it is not certain when these new technologies will enter the market or how successful they will be. Therefore, even if policymakers wish to rely primarily on market competition and the removal of legal restrictions to entry, some form of interim rate regulation may be desirable. The policy question revolves around what types of interim regulation, if any, are needed to control rates of cable systems not subject to effective competition.

Regulatory Options

Redefine "Effective" Competition

Several proposals seek to make more cable systems subject to rate regulation by applying a more stringent standard of "effective" competition. The Cable Act charged FCC with establishing criteria for determining whether cable systems faced effective competition and thus were no longer to be subject to regulation of basic rates. In 1985, FCC ruled that the existence of at least three over-the-air television channels in a cable community would ensure a competitive environment. The result of FCC's decision was that only 3.5 percent of cable systems remained rate-regulated as of December 31, 1989, according to our survey. By comparison, our survey also showed that on November 30, 1986, just prior to the

"the home entertainment video market is currently a highly competitive one. Customers have several suppliers to choose from (that is, over-the-air, home video, cable and satellite) and the average cable network today of 35 channels already offers a viewer over 1,000 programming choices per day. Telco [telephone company ownership], however, does not intend to add to that competitive environment, but eliminate it....More importantly, fiber [optics] to the home does nothing to improve our country's ability to have information services...and is wholly unnecessary since this added ratepayer cost burden brings no new value to the consumer."[13]

[13]Statement of Thomas Gillett, Vice President of Business Development and Technology Transfer, Cable Television Laboratories, Incorporated, before the Subcommittee on Telecommunications and Finance, House Committee on Energy and Commerce, Apr. 19, 1990, pp. 4, 5, 7.

Arguments Opposed to Limiting Horizontal Concentration

Some cable representatives oppose limiting the number of subscribers a company may have. They believe a cap on subscribers is unsupported by any known economic theory or their experience. The Department of Justice commented that the cable industry is currently not highly concentrated. No cable company has a large enough market share to influence the market, as defined by the Herfindahl-Hirschman Index and the Top Four Firm Ratio.[9]

Ownership of Cable Systems by Telephone Companies

The Cable Act prohibits telephone companies from providing video programming to subscribers in their telephone service area, except in specified circumstances. This is known as the ban on telephone cross-ownership of cable systems. The objective of this provision is to deter anticompetitive and discriminatory practices that might occur when the telephone company already has a telephone service monopoly in the local community. One exception is that telephone companies can offer cable services in rural areas of less than 2,500 people because it is more practical for telephone companies to operate cable systems than it would be for a separate cable system. To offer cable service within its service area, a telephone company must first apply for a waiver from FCC.[10] In addition, the Cable Act allows telephone companies to construct, maintain, and lease transmission facilities for franchised cable operators that provide video programming to the public.

In addition, the Modified Final Judgment, in U.S. v. AT&T, prohibits the regional Bell operating companies from offering information services.[11]

Provisions vary among the bills introduced that would alleviate barriers to a telephone company's entry into the cable industry. They include

- allowing telephone companies the right to operate a cable system but provide only cable programming that is owned and controlled by other companies, and

[9]Both measure the potential for market power abuse by determining the market share concentration. The Herfindahl-Hirschman Index was applied to the top 20 cable MSOs and had a resulting value of 852.4. This falls below the threshold of concentration at 1,000. The Top Four Firms ratio had a combined market share of 44 percent, which is also lower than the 50-percent threshold that defines a concentrated market.

[10]As of February 1990, a total of 418 telephone companies had applied to FCC for a waiver to provide cable television service. Of these, 387 applications were granted, 5 were denied, and 17 were withdrawn. The remaining applications are still pending.

[11]U.S. v. AT&T, 552 Fed. Supp 131 (D.D.C., 1982) aff'd sub nom Maryland v. U.S., 460 US 1001 (1983).

prevent other distributors from purchasing programming and other programmers from gaining access to a cable system.

All of the provisions described above seek to ensure that the owners of cable programming are providing their programs to all video distributors, both large and small cable systems, as well as to alternative video distributors. This would be done by providing equal access to all programming, prohibiting exclusive contracts, or prohibiting the discrimination of video programming among cable systems.

Arguments in Favor of Legislation to Limit Vertical Integration

Almost all interest groups—including some cable companies, broadcasters, alternative video distributors, telephone companies, city representatives, and consumer groups—believe the Congress should adopt legislation limiting the vertical integration of cable companies because all groups should have fair access to video programming. Although reasons vary as to why vertical integration should be controlled, a common argument can be summarized as follows: "If the Congress does not take action, in a few years a small handful of MSOs and their affiliated programmers may totally dominate the programming choices of American consumers. The price consumers may pay for such dominance is a significant increase in cable rates and a corresponding decrease in the diversity of programming on cable systems."[7]

Alternative video distributors state that, at times, satellite dish and wireless cable services (which have a multichannel capacity somewhat similar to cable) have been blocked out of local video markets because video programmers affiliated with MSOs restrict the availability of their programming. When they can purchase programming, it is at a discriminatory price. Limiting vertical integration would help alternative video distributors compete with the cable industry because the legislation would provide these competitors with access to programming at nondiscriminatory prices, terms, and conditions.

Arguments Opposed to Limits on Vertical Integration

Both the Department of Justice and the National Telecommunications and Information Administration commented that it has not been established whether vertical integration has resulted in the unavailability of cable programming. Cable programming appears to be readily available to both cable distributors and home satellite dish owners. As a result,

[7]Statement of Charles Devaney, Mayor, Augusta, Georgia, before the Subcommittee on Telecommunications and Finance, House Committee on Energy and Commerce, Apr. 19, 1990, p. 23.

local channels would be barred unless the cable system carried a complement of local stations and paid an annual re-transmission fee to FCC. This is known as the "if carry, must pay" proposal.

The first two provisions would essentially re-institute the must carry rules as defined by FCC in 1965. If enacted, these provisions would allow franchise authorities to require cable operators to carry local community programming of interest to subscribers on the lowest priced tier. The last three provisions—prohibiting channel repositioning, regulating re-tiering, and enacting "if carry, must pay"—would be new must carry rules.

Arguments in Favor of Must Carry Provisions

City representatives generally favor many of the must carry provisions. The basis for this support is their belief that local television stations are important sources of local news and information to communities. The proposals would protect the cable subscribers' rights to view local television channels.

Broadcasters favor must carry proposals. They also favor the "if carry, must pay" proposal because cable systems have benefited from the availability of "free" local television stations, which are the channels most watched by cable subscribers, without having to pay local stations for their coverage. The "if carry, must pay" plan seeks to redress what broadcasters see as a competitive imbalance between the cable and broadcast television industries. That imbalance—the cable system's right to re-transmit a broadcaster's signal without any compensation—can be redressed by a cable system which recognizes a broadcaster's property interest in its signal, and provides compensation for the value the signal brings to the cable system.

Arguments Opposed to Must Carry Provisions

Cable representatives are willing to support some type of must carry rules but believe current proposals go far beyond any compromise solution they could support. For example, NCTA opposes expanding the number of channels cable systems must set aside for carrying local television stations, abandoning the "audience share test" as a means of determining whether a local station qualifies for cable carriage, and using the condition of compulsory licensing as a means to comply with the requirements to carry television stations on certain cable channels.

Some cable systems also oppose provisions prohibiting channel repositioning. They believe there is no evidence that the cable industry is

Complaints concerning the franchise renewal process have resulted in legislative proposals to amend the Cable Act to loosen the restrictions on state and local governments' authority over the renewal process. For example, several of these proposals would authorize state and local governments to solicit competitive bids when considering franchise renewal and prohibit courts from overturning a state or local government's decision to deny renewal as long as the decision is not arbitrary or capricious. In this regard, they would ensure that cable operators could not avoid the consequences of past behavior.

Arguments in Favor of Changing Renewal Procedures

City representatives argue that the legislative proposals contain reasonable provisions for protecting state and local governments' "legitimate rights." They believe that state and local governments should have broad authority in the renewal process to consider other public interest factors and competitive proposals from cable operators when making their renewal decisions without fear of court suits. Also, state and local governments should be allowed to make cable operators accountable for actions that violate the franchise agreement—that is, not allowing them to avoid the consequences of past shortcomings simply by correcting their behavior in the future. However they believe that the uniform, shortened franchise period (10 years) will afford a certain amount of protection to cable operators to make a reasonable return on their investments.

Arguments Opposed to Changing Renewal Provisions

Cable representatives believe that these legislative proposals should not be enacted because of the following negative impacts:

- Cable operators would be stripped of their "due process" protection during franchise renewal, as it is currently guaranteed by the Cable Act. Furthermore, the added flexibility that state and local governments would have in establishing their own renewal standards could result in a reoccurrence of the "unbridled political shenanigans" that occurred before the Cable Act.
- Cable operators would lose the incentive to reinvest revenues in their systems because of greater uncertainty over franchise renewal and would be forced to maximize their return on investment during the term of the existing franchise.

While cable representatives believe that the legislation goes too far, city representatives also acknowledge that some of the pending bills have a number of shortcomings, including provisions which continue to require

- regulate charges for installation and rental fees for equipment necessary to receive basic cable service,
- require cable systems to obtain approval for any rate increase higher than five percent or higher than the percentage increase in the Consumer Price Index for the preceding twelve months, or
- regulate cable systems as a common carrier or utility.

Many of these proposals would allow state and local authorities to regulate as they did prior to the Cable Act. These include, for example, regulation of only a lifeline or basic service tier, or regulation of cable systems as a common carrier or utility. In comparison, regulating all cable services or having regulation at the federal level, instead of at the state and local franchise level, would be markedly different from the pre-Cable Act environment.

Arguments in Favor of Rate Regulation

Many groups have indicated that they favor some type of rate regulation as a means of controlling soaring cable rates. They believe that because true competition does not exist, the government needs to intervene. For example, city representatives favor establishing a new definition of effective competition that would prohibit basic rate regulation only in areas where there is competition from another cable system or a multichannel video programming distributor. In all areas not meeting the proposed definition of effective competition, state and local authorities could impose rate regulation.

City representatives have also responded that they favor legislation that would permit localities to regulate rates not just for basic service but also for all cable services offered. They argue that eliminating the regulatory distinction between basic service and other cable offerings would prevent cable systems from (1) avoiding regulation by creating a new limited basic service tier subscribed to by only a few consumers and (2) charging high fees for equipment rental and installation, which can make cable unaffordable to potential subscribers.

Arguments Opposed to Rate Regulation

Cable representatives, as well as telephone companies, oppose rate regulation. For example, NCTA believed that a return to local government regulation of cable rates would be an overreaction to what was a transitional problem. Re-regulation of cable rates by city councils would be a mistake because a return of regulatory authority to more than

Analysis of Legislative Proposals to Amend the Cable Act

Numerous bills have been introduced in the current session of the Congress dealing with the cable industry, which we believe is an indication of public concern with existing federal cable television policy. Complaints to the Congress, FCC, and FTC have been lodged by consumers and local governments about rate increases and poor cable television service. In addition, state and local governments have expressed dissatisfaction because they believe the Cable Act has weakened their ability to adequately oversee local cable operations to address their citizens' grievances. These mounting concerns and complaints have resulted in an examination of the need for changes in cable policy.

This chapter addresses the major legislative proposals to amend the Cable Act. A number of issues are addressed in the bills. We highlighted what we believe are the major issues, and the major arguments in favor of and opposed to these proposals:

- regulating cable rates and associated charges,
- changing the cable franchise process,
- requiring cable systems to carry all local television channels (known as "must carry"),
- restricting vertical integration in the cable industry,
- restricting horizontal concentration in the cable industry, and
- allowing telephone companies into the cable industry.

Our discussion is drawn from congressional testimony, public comments in response to FCC's two cable proceedings,[1] and legislative analyses by the National League of Cities and NCTA. Appendix VII contains a list of the respondents we drew upon to formulate these arguments.

Regulation of Cable Rates

The Cable Act allows state and local governments to regulate basic cable rates only in those areas not subject to effective competition as defined by FCC. As discussed in chapter 1, FCC defined effective competition as the existence of at least three over-the-air television signals significantly viewed by the cable community. This definition had the effect of deregulating rates of approximately 96 percent of all cable systems, according to our survey results. Proposals would either directly subject all cable systems to some type of rate regulation or re-define effective competition in such a way that more cable systems would become subject to regulation.

[1] Notice of Inquiry, MM Docket No. 89-600, and Notice of Proposed Rulemaking, MM Docket No. 90-4.

showed that as of December 31, 1989, 13 percent of systems offered added outlets as part of their basic service. Conversely, we found a slightly smaller percentage of systems offering set-top converters as part of their most popular basic service, from 54 percent in our first survey to 51 percent in our follow-up survey. The percentage of systems offering remote control units and program guides as part of their basic service also showed little change.

Premium Services

In contrast to basic service rate increases, rates for premium services have decreased slightly since deregulation, both individually and for combinations of premium channels.[8] Average rates charged by cable systems for three popular premium channels decreased by $.13 to $.21 per month for each channel from November 30, 1986, to December 31, 1989. Average monthly rates as of December 31, 1989, showed varied changes, from a decrease of $.07 to an increase of $.07 per channel compared with our October 31, 1988, results, reported in our previous survey.

Likewise, average rates per month for combinations of two, three, and four premium channels also decreased, by $.83, $1.42, and $2.22, respectively, from November 30, 1986 to December 31, 1989. Average rates per month as of December 31, 1989, for the combinations of two, three, and four premium channels also showed slight decreases of $.32, $.55, and $.66, compared with the results reported in our 1988 survey.

The number of subscribers purchasing premium channels increased by 16 percent from November 1986 to December 1989, but the proportion of total cable subscribers purchasing one or more premium channels decreased from about 56 percent to 52 percent.

Revenue per Subscriber

Revenue per subscriber includes the revenue received by cable systems from all subscriber services, such as basic and premium services, installation, pay-per-view, and options. Average revenue to cable operators per subscriber increased from $21.78 to $26.36 between November 30, 1986, and December 31, 1989, an increase of 21 percent. During 1989, revenue per subscriber increased from $25.00 to $26.36, an increase of

[8]Rates for premium services were never subject to state or local regulation prior to the Cable Act.

1986, prior to the date the Cable Act took effect.[5] For those systems reporting data for both 1986 and 1989, a comparison of rates charged for the lowest priced basic service by those systems that were regulated versus those systems that were not regulated in 1986 showed a significant difference. As table 2.5 shows, the systems that were regulated in 1986 (but not regulated in 1989) showed rate increases of 47 percent between 1986 and 1989, from an average of $10.92 to $16.06 per subscriber for the lowest priced service. Systems that were not regulated in 1986 (and not regulated in 1989) showed rate increases of 32 percent, from an average of $11.99 to $15.77 per subscriber. This large percentage difference may be explained by the fact that the average basic rate for systems not regulated on November 30, 1986, was $1.07 higher than the average rate for regulated systems.

A further comparison of these rates shows that basic rates for regulated systems lagged behind those not regulated, by over $1.00 per month, as far back as 1984. However, during 1987 and 1988, in the aftermath of deregulation, basic rates for systems formerly regulated quickly started to catch up, and they now are comparable to the rates of systems previously not regulated.

Table 2.5: Rates for Lowest Priced Basic Service Provided by Systems That Were Regulated/Not Regulated Prior to Effective Date of Cable Act

	Average monthly charge per subscriber in systems that in 1986 were:	
Date	Regulated	Not regulated
12/31/84	$9.26	$10.33
11/30/86	10.92	11.99
12/31/87	12.95	13.21
12/31/88	14.49	14.63
12/31/89	16.06	15.77

Impact of Changes in Cable System Ownership

In recent years, a number of cable systems have changed ownership. Critics charge that "trafficking" has resulted in increased cable system costs that must be recouped from subscribers through higher cable rates.

Our survey results confirmed that many cable systems have changed ownership. Since 1985, 53 percent of cable systems have changed owners at least once, with 13 percent having changed owners more than

[5]Our survey also showed that only 3.5 percent remained regulated on December 31, 1989, a number too small for meaningful statistical analysis.

increased by 22 percent during the same period, and cable system penetration (total number of subscribers divided by the number of homes having access to cable) increased from 56 to 58 percent.

Basic Rates and Services

As shown in table 2.1, during 1989 an average cable subscriber's monthly rate for the lowest priced basic service increased from $14.50 to $15.95, an increase of 10 percent. Rates for the most popular basic service also showed a 10-percent increase, from $14.91 to $16.33. Over the 37 months since deregulation covered by our survey—November 30, 1986, through December 31, 1989—monthly rates for the lowest priced basic service increased by 43 percent, from an average of $11.14 to $15.95 per subscriber. By comparison, for the same period, the monthly rates for the most popular basic cable service increased by 39 percent, from an average of $11.71 to $16.33 per subscriber.

Table 2.1: Average Monthly Basic Service Charge per Subscriber

	Average basic service charge per subscriber for:	
Date	**Most popular service**	**Lowest priced service**
11/30/86	$11 71	$11.14
12/31/88	14.91	14.50
12/31/89	16.33	15.95

Examining basic rate increases in more detail, table 2.2 shows the range of percentage increases that subscribers have incurred. In summary, since deregulation roughly half of all subscribers incurred rate increases of more than 40 percent for both the lowest priced and the most popular service.

Table 2.2: Changes in Basic Service Rates Since Deregulation

	Percentage of subscribers whose rates changed between 11/30/86 and 12/31/89 for:	
Change in rate	**Most popular service**	**Lowest priced service**
No change or decrease	3	10
Increase (percent)		
>0-≤20	13	10
>20-≤40	36	30
>40-≤60	28	29
>60	19	21

As illustrated in table 2.3, cable subscribers received additional basic channels to accompany the rate increases. Basic channels available to subscribers to the lowest priced basic service increased, on average, We appreciate the cooperation of those cable operators who took the time to answer our questionnaire. Because responses to the survey were voluntary, the cooperation of cable operators, associated corporate officials, and industry representatives was essential to the success of this survey.

As part of our follow-up survey, we also reviewed the major pieces of cable legislation currently before the Congress and analyzed public comments submitted to FCC in conjunction with its two ongoing cable proceedings. Chapters 3 and 4 of this report discuss the cable policy implications (pros and cons) of these proposals, particularly with regard to proposals for dealing with increasing cable rates. To carry out this work, we reviewed the legislative history of the Cable Act, reviewed and analyzed pending legislation, examined the public comments filed with FCC concerning its two cable initiatives, and reviewed congressional hearing documents, analyses of legislative proposals, and other available studies and reports. We also had discussions with officials from a number of organizations, including FCC, the Department of Justice, the Federal Trade Commission (FTC), the Bureau of Labor Statistics, NCTA, the National League of Cities, the National Rural Telecommunications Cooperative, and the National Association of Regulatory Utility Commissioners to obtain their views on the policy and legislative issues.

Our detailed work in preparing this report took place between September 1989 and May 1990. While we shared survey data with FCC, in accordance with the Subcommittee's policy, we did not obtain comments on a draft of the report from FCC or representatives of the cable industry.

annual Television and Cable Factbook, a well-known industry reference book. Television Digest, Inc., canvasses cable systems annually, updating its data base. We contracted to purchase its data base of 9,850 cable systems, specifically system names, addresses, and subscriber figures, updated as of November 1989.

Sample Selection

The cable television industry has a wide range of different-sized systems, based on number of subscribers. To capture the industry's diversity and accurately represent any significant differences in rates and services based on size, we designed our sample using five size groupings (or strata) of systems, based on the number of subscribers. However, to sample by cable system size, it was essential that the universe of systems from which we selected our sample include a subscriber count for each system. Of the 9,850 systems in Television Digest's data base, we eliminated 895 systems from our universe that did not have an accompanying mailing address or subscriber count, leaving 8,955 systems usable for our survey. As shown in table 1.1, we selected a total of 1,971 systems for our survey, from the 5 different-sized groupings created, to receive our questionnaire.

Table 1.1: GAO Sample Selection Methodology

	Number of systems			
Size of cable system	Universe, according to Television Digest	GAO sample	Number of subscribers (millions)	Response rate (percent)
1-1,000	5,111	500	0.17	70 6
1,001-3,500	1,703	425	0.82	74.8
3,501-10,000	1,070	450	2.69	79.3
10,001-50,000	900	425	9.32	82.6
50,001 and up	171	171	16.12	88.3
Total	**8,955**	**1,971**	**29.12**	**77.6**

Our sample of 1,971 cable systems contained about 29 million subscribers, according to Television Digest, Inc. This sample represents about 20 percent of the universe of cable systems but accounts for about 62 percent of the universe of subscribers. Our coverage of subscribers was greater than the 20-percent coverage of cable systems because we selected larger samples from the larger-sized systems.

subscriber bases; (2) the increasing ownership interests in the production or supply of cable programming networks by companies owning cable systems (vertical integration); (3) the unreasonableness of limitations on local governments' ability to oversee cable operations in order to ensure quality cable service and reasonable rates; (4) the effects of the elimination of FCC's "must carry" regulations, whereby cable systems no longer have to carry local over-the-air broadcast channels; and (5) the question of whether competition in the cable industry should be increased by allowing telephone companies to own and operate cable systems.

In defense of the cable industry, the President of the National Cable Television Association (NCTA) has testified before the Congress that the Cable Act has been a success and that the deregulation of basic cable rates has benefited consumers, citing examples of expenditures the industry has made to improve cable service. For example, he said that the industry has spent millions of dollars to improve the quality and diversity of cable programming; expenditures increased from $300 million in 1984 to nearly $1 billion in 1989. Spending on programming by basic cable networks and premium services increased from $1 billion in 1984 to $2 billion in 1989. In 1984, 57 percent of the nation's cable customers had access to 30 or more channels. Today, that figure has risen to 87 percent of customers. He further explained that expenditures for improvements in plant and equipment have increased from about $200 million in 1984 to over $500 million in 1989, and that franchise fees paid to local communities have tripled, from $200 million in 1984 to $768 million in 1989.[6]

Ongoing FCC Studies

The Cable Act directs FCC to conduct a study on the impact of the Cable Act 6 years after enactment, and to recommend legislative changes, if appropriate. FCC's study is currently underway and is scheduled for completion in July 1990. As part of its study, FCC has revisited its earlier analyses of a number of controversial issues, including its definition of effective competition. On December 29, 1989, FCC issued a Notice of Inquiry[7] as a first step towards meeting its reporting mandate. The notice requested comments on a number of issues. FCC will use the comments to analyze the effects of substituting market forces for cable rate

[6]Statement of James P. Mooney, President of the National Cable Television Association, before the Subcommittee on Telecommunications and Finance, House Committee on Energy and Commerce, Mar 1, 1990.

[7]FCC Notice of Inquiry, MM Docket No. 89-600.

facilities and systems, and to use local streets and rights-of-way to connect cable subscribers. The franchise agreement could also be used by the locality to prevent cable operators from charging unreasonably high basic rates for what was seen as an essential service in these areas. In addition, cities viewed the ability to deny or delay a requested rate increase as a useful tool to enforce other provisions of a franchise agreement, such as the obligation to provide service to all residents of the service area.

Passage of the Cable Act

The objective of the 1984 Cable Act was to transform the existing mixture of local, state, and federal regulations into a more coordinated national cable policy. The goals of this policy included (1) creating procedures for use by localities when selecting a cable franchisee that would encourage cable industry growth and development, using an orderly process for franchise renewal that would protect cable operators against unfair renewal denials; (2) encouraging a wide diversity of information sources and services for the public; and (3) promoting competition in cable communications.

The Cable Act generally prohibits state and local governments from regulating basic cable television rates in communities where the cable system is subject to "effective" competition, as defined by the Federal Communications Commission (FCC). FCC has determined that effective competition exists if residents of a locality can receive three or more television stations using their own antennae as an alternative to cable service. As a result, after December 29, 1986, the effective date of rate deregulation, any cable system located in an area with three or more over-the-air stations would no longer be subject to local rate regulation of its basic cable rates. Our follow-up survey showed that only about 3.5 percent of the cable systems continued to be subject to local rate regulation as of December 31, 1989, in comparison with 67 percent regulated prior to rate deregulation.

After rate deregulation, complaints started to be heard from a number of sources about increases in cable rates. Congressional hearings have been held, and a number of legislative proposals have been introduced to

Introduction

Cable television rates, once subject to broad control at the local or state level for the lowest priced basic service, have been deregulated since late 1986 in most communities, following the Cable Communications Policy Act of 1984 (Cable Act). Since then, local officials and consumer groups around the country have expressed concern about increases in cable rates, and a number of bills have been introduced in the Congress to "re-regulate" cable rates.[1] Cable industry officials, on the other hand, report that rate increases are moderating and have been justified by a number of factors, including increased costs, upgrading of systems, and improvements in customer services.

In August 1989, we reported and testified on the results of our first survey of cable television rates and services to the Subcommittee on Telecommunications and Finance, House Committee on Energy and Commerce.[2] At that time, the Chairman of the Subcommittee requested that we continue to monitor cable rates. This report is our follow-up survey of cable television rates and services.

Background

Cable television service continues to evolve from its original purpose over 40 years ago of providing residents in rural areas with better television reception to providing residents with a full range of entertainment services. Today, cable service offers a wide range of video programming to millions of subscribers, including not only over-the-air television channels but also movies, sporting events, and other programming available only to cable subscribers. In rural areas, cable television is seen by some as an essential service, serving as a window to the outside world because of otherwise poor television reception. In other parts of the country, however, cable is more broadly categorized as a multichannel video entertainment service, competing not only with broadcast television but also with other sources of entertainment, such as movie theaters and video rental stores.

According to cable industry representatives, recent industry growth and development can be attributed for the most part to the relaxation of industry regulation brought about by the passage of the Cable Act. In 5-1/2 years since passage of the Cable Act, major growth in the cable

[1]The Cable Act deregulated cable rates only in those localities where the cable system was subject to "effective" competition, as we discuss later in this chapter.

[2]Telecommunications: National Survey of Cable Television Rates and Services (GAO/RCED-89-193, Aug. 3, 1989) and National Survey of Cable Television Rates and Services (GAO/T-RCED-89-60, Aug. 3, 1989).

Abbreviations

CPI	Consumer Price Index
DBS	direct broadcast satellite
FCC	Federal Communications Commission
FTC	Federal Trade Commission
GAO	General Accounting Office
HBO	Home Box Office
MMDS	multichannel multipoint distribution service
MSO	multiple system operator
NCTA	National Cable Television Association

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Principal Findings

Basic Cable Rates and Channels

GAO's survey showed that, during 1989, an average cable subscriber's monthly rate for the lowest priced basic service increased by 10 percent, from $14.50 to $15.95.[3] Rates for the most popular basic service also showed a 10-percent increase, from $14.91 to $16.33. Between November 30, 1986, and December 31, 1989, monthly rates for the lowest priced basic service increased by 43 percent, from an average of $11.14 to $15.95 per subscriber. By comparison, the monthly rates for the most popular basic service increased by 39 percent, from $11.71 to $16.33.

Cable subscribers received additional basic channels to accompany the rate increases. During 1989, the number of channels available to subscribers increased modestly, by one and two channels, respectively, for the lowest priced and the most popular services. Overall since deregulation, the number of basic channels available to subscribers to the lowest priced basic service increased, on average, from 24 to 31 channels. The number of channels available for subscribers to the most popular basic service also increased, on average, from 27 to 34.

Rate Changes in Regulated and Nonregulated Systems

The cable systems that were regulated in November 1986 had greater rate increases through December 1989 than those systems that were not regulated. (Twenty-four percent of cable systems were already deregulated at that time.) Rates for the regulated systems increased by 47 percent, compared with a 32-percent increase for the nonregulated systems. This difference may be explained by the fact that the average basic rate for systems not regulated on November 30, 1986, was over $1.00 higher than the rate for regulated systems. By December 31, 1989, however, basic rates for systems formerly regulated had caught up with rates of those systems previously not regulated.

Changes in Cable System Ownership

GAO found that 53 percent of cable systems had changed ownership since 1985. Critics have charged that "trafficking," or the frequent buying and selling of systems, has resulted in increased cable system costs that must be recouped from subscribers through higher rates.

[3] GAO's survey results are based on responses received from 1,530 cable systems of 1,971 systems randomly surveyed nationwide--a response rate of 78 percent.

Executive Summary

Purpose

Cable television rates, once controlled at the local or state level, have been deregulated in most communities since late 1986, following the Cable Communications Policy Act of 1984. The Cable Act sought to encourage the development of cable systems to provide a wide diversity of information sources and services to the public. Since deregulation, the cable industry has grown tremendously, but accompanying rate increases have caused concern over whether the industry has begun to abuse its market power.

In August 1989, GAO reported and testified on the results of a cable television survey covering changes in rates and services between December 1986 and October 1988.[1] The survey reported a 29-percent increase in the average cable subscriber's monthly rate for the lowest priced basic service.[2] As requested, GAO updated its survey through 1989 and collected data from 1984 and 1985 to further study the effects of the Cable Act. In addition, GAO sought to determine whether cable rates have moderated during 1989 and whether cable system ownership changes have driven up cable rates. GAO also reviewed proposals for amending the Cable Act and the major options for dealing with the cable industry's market power.

Background

Cable television service has continued to grow and evolve. Originally designed to provide residents in rural areas with better television reception, cable has expanded to metropolitan areas and is now viewed as a multi-channel video entertainment service competing with broadcast television, movie theaters, and video rental stores.

Cable systems market several services—basic, optional, and premium. Basic service includes the re-transmission of local television channels, but may also include such cable channels as C-Span, CNN, ESPN, and "superstations," offered as a single level of service or as two or more "tiers" of service. Optional services include such features as remote control units and cable outlets for additional television sets. Premium service generally includes movie and other entertainment channels, such as Home Box Office (HBO) and Cinemax, available for an extra monthly fee.

[1] GAO/RCED-89-193 and GAO/T-RCED-89-60, Aug. 3, 1989.

[2] Because some cable systems offer more than one level or "tier" of basic service, GAO collected data on both the lowest priced service offered and the service to which most customers subscribe, i.e., the most popular service. Since most systems have only one tier of basic service, the most popular service is generally also the lowest priced service.