

Report Name	Cable Price Issues	Competition Issues	LFA Requirements	Broadband Issues
Ball State Whitepaper ¹	<ul style="list-style-type: none"> ▪ Broad statements of pricing reductions are suspect in that prices depends on: <ol style="list-style-type: none"> 1. The contents of the package being offered 2. The timing of the initial offerings by new entrants trying to grab market share to start 3. Increase/decrease in rates for comparable packages over a period of time after the initial market share grab – No real experience here for telcos versus incumbents. ▪ Executive Summary states that, in Texas, statewide franchising resulted in an immediate 25% reduction in cable rates in the affected markets. This is false: <ol style="list-style-type: none"> 1. The 25% reduction looks to have been a comparison of Forth Worth’s basic only rates of Charter and the new entrant Verizon.² 2. A better comparison is with expanded basic showing that Verizon’s initial rates were 18% lower³ 3. However, Verizon announced a rate increase in November from its initial \$39.95 to \$42.99, a 	<ul style="list-style-type: none"> ▪ The paper spends a great deal of energy on arguing that telcos will not increase rates if regulation is eliminated. <ol style="list-style-type: none"> 1. Way too soon to tell - use of the 1984 divestiture as the example is inappropriate as we have over 20 years of advanced technology changes in telephone services ▪ The authors appear to believe that allowing the telcos immediate access through state franchising without much regulation will result in increased competition for cable services: <ol style="list-style-type: none"> 1. Allowing immediate access in Texas has not shown much increased competition for the incumbent. 2. There has not been an increased amount of cable competitors filing for statewide franchises. The vast majority of Texas statewide franchises issued to date are to the incumbent cable operators where the franchises have expired⁴ 3. AT&T is only doing beta testing in San Antonio and Richardson Texas with limited ability to provide channels. • Many other competitors such as Grande are still operating under local franchises and providing basic and expanded basic services at rates slightly less than the incumbents 	<ul style="list-style-type: none"> ▪ Authors state that telcos will not redline without LFA service area requirements. This is false: <ol style="list-style-type: none"> 1. Telcos have redlined DSL deployment since there are limited regulations in this area. 2. Other wire line cable operators have redlined areas where city requirements for ubiquitous service were not included in franchise agreements. ▪ Telcos want to severely limit contributions to PEG which will force tax payers to pick up the slack or cause cities to eliminate these programs. ▪ The loss of control by LFA over the payment of franchise fees could result in: <ol style="list-style-type: none"> 1. Exclusion of new technology deployment of cable services – depending on state franchise language 2. Limited ability to determine accuracy of payments 3. Telcos have fought hard in Texas to limit the amount of franchise fees to be paid for telecommunications service • AT&T and Verizon argue that deployment of their services will be delayed if they have to deal with cities. However, in Texas AT&T has had state franchising for over a year and is still only in beta testing of its product. 	<ul style="list-style-type: none"> ▪ Executive Summary’s first point is that statewide franchising will increase deployment of broadband services. ▪ Many of the comparisons of pricing in the report deal with telephone service and broadband service rates being lower with competition ▪ Argument appears to be that allowing Telcos want they want in cable will result in the telcos finally deploying broadband services for which the increased investment has been held “hostage” until they get want they want.

¹ *The Economic Impact of Video Franchising and Broadband Investment in Michigan: 2006*, The Digital Policy Institute, Ball State University, May 19, 2006

² Survey conducted by TATO A comparing Jan 2005 rates to Jan 2006 rates

³ Ibid.

⁴ www.puc.state.tx.us/cable/directories/SICFA/SICFA_Directory.htm

	<p>7.6% increase. A greater % than cable's 5.2% noted in the FCC report (FCC 06-179, page 7)</p> <p>4. Incumbents did not reduce prices for basic and expanded basic in Texas where Verizon provided service.</p> <p>5. However, the incumbent increases in "Verizon cities" is lower, but can be explained by the following:</p> <ul style="list-style-type: none"> a) Comcast as the competitor made no changes due to Aldephia deal to transfer systems to Time Warner in 2006 b) Charter increases were lower in all areas, even those without Verizon <p>7. Time Warner competes with Grande in several communities. Time Warner raised its rates to continue charging more than Grande in all but one community included in the TATO A survey. In that community, Time Warner and Grande had double digit increases.</p>	<ul style="list-style-type: none"> • Verizon and AT&T are not committed to providing services outside of their respective footprints, so they will not be competing with each other 		
<p>FCC Report on Cable Pricing⁵</p>	<ul style="list-style-type: none"> ▪ The data in this report is old as it is for the Jan 2005 rate 	<ul style="list-style-type: none"> ▪ There are no barriers to entry to the DBS providers as they do not have 	<ul style="list-style-type: none"> ▪ With respect to the offering of advances services, the FCC report 	<ul style="list-style-type: none"> ▪ Shows that cable operators in non-competitive areas offer

⁵ Report on Cable Industry Prices, FCC 06-179, released December 27, 2006

	<p>information</p> <ul style="list-style-type: none"> ▪ The data in this report is not verified but cable operator’s survey reporting is taken as fact ▪ The data does not distinguish whether the overbuilder is a municipal not-for-profit operation ▪ The data presentation appears to be in support of the recent decision by FCC to streamline the ability of telcos to get into the video cable markets ▪ Finding that areas with overbuilders have lower cable rates <ul style="list-style-type: none"> 1. Does not show how long the overbuilder has been in business to show if the lower rates are just an initial ploy to grab market share 2. Does not make the comparison on a per channel basis which shows much less difference 3. Does not show that, although the overbuilders have lower overall “rate card” rates, that the actual rates charged to customers are lower than the incumbent 4. Comparison of 2005 FCC report to this report shows that increase in overbuilder pricing was at a higher rate of increase than areas without effective 	<p>the same requirements, yet DBS does not have lower rates for service</p> <ul style="list-style-type: none"> ▪ It appears that the FCC’s definition of what constitutes effective competition is flawed if the result of effective competition is to have the market set the rates. DBS is not effective competition if this rate study is correct. Who is to say that the FCC’s determination that telcos will provide effective competition is not equally flawed ▪ Currently AT&T is offering DBS through a deal with Dish Network and it not offering any appreciable reduction in price for video service ▪ Report alludes to the cable industries “gobbling” of smaller companies by larger ones, thereby providing less chance of competition. However, the FCC continues to approve the mergers of telcos with justifications that include the telcos promises of broadband deployment. The availability of such technology for government security under the Communications Assistance for Law Enforcement Act (CALEA) has been the topic of much discussion at the FCC. Bigger companies have more investment to put into this effort as stated in the approval of AT&T and Bell South 	<p>shows that the non-competitive environments (with continued LFA regulation) actually provide a higher percentage of customers the advanced services like HDD and telephony than the cable overbuilders or DBS. Only wireless cable shows higher percentages on more than one measure. Overbuilders are lower on all measures.</p> <ul style="list-style-type: none"> ▪ If could be argued that the lack of LFA requirements and regulation have allowed DBS to continue to charge rates that are almost exactly the same as those of the incumbent providers with franchise fee and service area requirements. The customers are not seeing any of the benefits of not regulating DBS. 	<p>cable internet service to 96% of their cable subscribers. This compares to 94.8% the prior year report.</p> <ul style="list-style-type: none"> ▪ Competitive areas show overbuilders offering cable internet access of 95% as compared to 93.9% ▪ Telephony offering from incumbents in non-competitive and overbuilders in competitive have both shown in creases to about 42% ▪ This demonstrates that even with regulation, the incumbents continue to offer the technologically advanced services. ▪ Only NCTA speaks to how the bundling of all three services has saved customers when compared to purchasing each service separately⁶ ▪ The telcos would have us believe that regulation actually hinders the offering of these advanced services – only because the telcos have keep the investment in broadband and other services hostage until they get what they want.
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⁶ *Cable by the Numbers*, National Cable & Telecommunications Association, December 2006

	<p>competition (73% increase versus 51% increase in programming costs) The FCC poos this finding by saying that the incumbents would not likely pass any differences along to consumers. Therefore effectively saying that only the overbuilder will charge lower rates. This defeats the argument that competition results in lower rates for everyone.</p> <ul style="list-style-type: none"> ▪ FCC found that effective competition from DBS does not affect the cable rates. <ol style="list-style-type: none"> 1. This finding is important in that it shows that a lack of regulation does not result in lower rates. In fact, the DBS providers (who are not regulated by LFA's and have been provided unregulated benefits (no franchise required and no franchise fee payments) are actually keeping prices even with wire line operators that currently have these requirements. Therefore, the test case has failed. 			
GAO 2005 Report ⁷		<ul style="list-style-type: none"> ▪ This report was primarily related to competition from DBS ▪ Reported that DBS has highest penetration in rural areas where other wire line operators do not want to go. 		

⁷ Telecommunications Direct Broadcast Satellite Subscribership Has Grown Rapidly, but Varies across Different Types of Markets, GAO-05-257, April 2005.

		<ul style="list-style-type: none"> ▪ Not at all clear that allowing telcos to have state franchising will result in the telcos competing for the rural markets. To date, the telcos have not expanded their DSL services to these markets (a form of cherry picking in my opinion) ▪ Reported the DBS penetration has increases at a higher rate in areas that where the incumbent cable operators do not offer the advances services like digital cable, internet and telephony ▪ Areas where digital cable, internet and telephony are offered by the incumbent shows less competition from DBS <ul style="list-style-type: none"> 1. If telcos are allowed to enter only those markets where they want, then likely they will enter the more urban areas. Additionally, telcos will likely offer the advanced services, thereby effectively reducing the competition from DBS. Again the result is a duopoly. 		
NCTA March 2006 Publication ⁸	<ul style="list-style-type: none"> ▪ Makes the argument that the phone companies have mislead the public on claims of bringing cable prices down if allowed to quickly enter market. NCTA claims that these companies will be increasing telephone rates (could be argument that cable prices may drop, but difference will be made up in telephone rate hikes, where the telcos enjoy a 	<ul style="list-style-type: none"> ▪ NCTA argues that the telcos had the opportunity to enter the cable market in 1996, but chose not to ▪ States that telcos have held up the DSL technology ▪ Makes the argument that the telcos will cherry pick 	<ul style="list-style-type: none"> ▪ NCTA argues that the telcos have been able to get franchises from LFA without a great deal of heartburn⁹ Therefore, they do not need special treatment 	

⁸ *Phone Companies and the Truth: A Bad Connection*, Released by the National Cable & Telecommunications Association, March 14, 2006

⁹ Footnoted in this report as *Verizon Earnings Conference call for Q4 2005(Jan 26, 2006)(regarding obtaining local franchises, Verizon's CEO said: "I think we have to go out and get ---and get franchise approvals and we're doing that and we're doing it aggressively. And we're queued up. We don't feel that there's any impediment. . ."*

	much greater market share			
GAO 2004 Report	<ul style="list-style-type: none"> ▪ General finding that rates were lower in the 6 markets with wire based competition from Broadband Service Providers: however <ol style="list-style-type: none"> 1. There were only six 2. They were all relatively new start up with likely “grabber” rates 3. The lower prices were all based on the customer taking all three services, not just cable – therefore only customers that want the full deal would benefit 	<ul style="list-style-type: none"> • Finding that these companies chose certain location due to city size (not the larger ones) income and computer use. This is similar to cherry picking as no matter the lack of franchising, these companies would not likely have extended networks where the “numbers do not work” 	<ul style="list-style-type: none"> • Advocates of deregulation focus on the statement in the report that the BSP stated that they chose places where the cities were receptive. The interpretation has been that this means the (1) there exist cities that would not be receptive and (2) that automatically implies that franchising by cities is a barrier to entry. What the report does not state is that any of the BSP said that they had had difficulties in getting the necessary approval for entry into the markets they selected. What the report states is that the 5 of the 6 BSP selected markets that had cities officials that were actively interested in the BSPs providing service.¹⁰ However, this reason appears to be at the bottom of the list of factors and was not included as a problem reported by the BSPs as limited their ultimate ability to increase penetration. 	
TV4US WI	<ul style="list-style-type: none"> • Continues to quote the Ball State White paper on the “25% rate reduction in Texas.” • In a recent presentation by the President of TATO, she called this “Myth #1.” Her points included: <ol style="list-style-type: none"> 1. The comparison did included introductory rates only 2. See the rate chart for Texas cities that shows that the basic and expanded basic services 			

¹⁰ Wire Based Competition Benefited Consumers in Selected Markets, GAO, February 2004, page

	<p>did not drop and in fact, the incumbent appears to be unaffected by the newcomers (See www.tatoa.org)</p> <ul style="list-style-type: none"> • Also quotes the FCC's 93% increase, but does not state that the number of channels had increased significantly, so the actual increase per channel is much less • As stated above, the FCC information is flawed • States that other deregulated services have shown significant competition and lowering of rates. <ol style="list-style-type: none"> 1. The advertisement includes wireless and long distance 2. It does not include in the fact that the increases have continued in POTS and associated services for the captive customer to make up the difference. Most of the long distance rates decreases have been for customers that chose multiple services from the same provider with a contract period. 			