

SUMMARY OF ISSUES RELATED TO VARIOUS REPORTS ON CABLE RATE COMPETITION AND STATE FRANCHISING

• Are cable prices really lower in areas where there is competition?

1. Reports have misrepresented the results in Texas –basic and expanded basic rates of incumbent cable operators are not going down where Verizon has entered the market - See <http://www.tatoa.org/docs/cablerates2.pdf>. (This table also demonstrates that in areas of Texas where there are other wire line providers, the incumbent cable operator's rates have not been forced downward.)
2. *Introductory rate offerings are deceptive* – After one year in Texas, Verizon is raising its initial rates by 7.6% - a higher percentage increase than average cable rate increases for same service levels.
3. Touted percentage reductions are not on apples-to-apples and may include:
 - Packages that have cable, telephone and broadband service requirements.
 - May not provide same channel lineups.
 - Competitors may require certain contract time requirements in order to get the savings with charges for switching before the end of the contract. (This is currently true with certain telco plans for long distance, broadband, etc.)
 - Bottom line is that not all customers will receive such savings as they may have to take the full load of services offered.
4. *The pricing data has not been verified independently.* Broad statements are taken as fact. The FCC accepts price figures from cable systems without even auditing a small sample of those systems to determine how reliable those figures are, and then draws sweeping conclusions. Much of the data used (particularly by the FCC) is outdated.
5. The pricing reports do not state whether the “competitor” is a municipal not-for-profit service.
6. If competition lowers rates, why hasn't the continued increase in penetration by DBS caused cable rates to fall?
 - DBS shows the same types of increases for service as cable with approximately the same rates for service.
7. The pricing data is being reported with the spin by FCC and other federal government agencies (GAO) to support push to:
 - Allow AT&T its requested mergers.
 - Attempt to further FCC's hope that such mergers will provide increases in capital deployment for broadband. Congress has charged the FCC to increase availability of broadband and clearly want the use of broadband networks for national security.
8. Given the timing of the reports like GAO, FCC and even to some degree Texas information, the pricing comparisons are made during a time that cities were involved in any required franchising. Therefore, cities were not a barrier for these companies at the time they entered the markets evaluated.
9. A recent study of the three cable companies operating in the City of Chicago from 2003-2005 determined that the presence of competitive wire line providers has not resulted in a significantly lower cost option over an extended period of time for cable subscribers in Chicago.

• Will there truly be “competition” with less regulatory oversight?

1. Reports in Texas have been overstated by saying that 120 new state franchises have been issued.
 - Almost all of these are *incumbent cable providers* where franchises have expired or incumbent telephone.
 - Most cities are reporting “business as usual” without increases in companies coming in to provide service.
 - Even the telcos have been SLOW to deploy wire line cable services. AT&T is still only in the testing phase in a few communities (San Antonio has been locked in at only 3,000 AT&T “U-verse” TV subscribers for months).
2. If the phone companies are allowed to compete “where they choose”:
 - They likely will not provide service outside of their respective footprints (according to statements made at a recent TATOA conference by telco representatives).
 - They will cherry pick their customers (if the historical deployment of DSL by telcos is any indication of how markets will be selected).
 - The large phone companies will never compete with each other if they stay only within their respective footprints.
 - They may actually limit customer choice if they include contract terms for services as they currently do for other telecommunications services.
3. There has been virtually no regulation of DBS (which FCC classifies as a competitive service) and, although the service is available, the rates have not gone down for customers. So if competition is supposed to provide lower rates, here is a case study that shows such is not necessarily the result.

- **Are City franchising requirements really a barrier to entry?**

1. Remember that the competitive providers in these studies (except DBS) were providing service based on franchising requirements – therefore, the cities did not prohibit competition.
2. It appears to be primarily the telcos that argue that cities provide a barrier to entry.
 - However, this appears to be based on build out requirements, as phone companies do not want to have to go beyond their own footprint or serve areas where the numbers do not work (as evidenced by the slow DSL deployment).
 - It is interesting that Verizon was able to obtain franchises before the Texas law was passed.
 - Considerable time has passed and AT&T is still not really in the game in Texas. What is their new barrier?
3. Franchise fee requirements are included in the state franchising in Texas – therefore this was not a barrier.
 - However, the result may be that the oversight is reduced significantly, with a drop in franchise fees (as Texas saw in phone fee) and requirements that cities make up the difference in general taxes or reduced services.
4. Customer service requirements should not be considered a barrier to entry as even the FCC has continued to advocate such requirements.
 - Texas cities are seeing increases in customer complaints with state franchise holders – with little ability to do anything about it.
 - Texas state franchises have little to no customer service requirements.

- **Could deployment of broadband be the real reason for this effort to cut the cities out?**

1. Most of the studies reviewed argue that reducing city regulation over cable services will provide opening for increased broadband deployment – again, the focus is stated to be on cable rates, but this is a smoke screen.
2. FCC continues to approve AT&T mergers with the argument that more capital will be available for broadband.
3. The logical extension of this is that companies have to be bigger to provide the capital for broadband (GAO 2004 report states that some BSP had trouble getting the capital).
4. If companies have to be bigger, will we just see the phone companies come in and gobble up any other provider, including possibly the incumbent cable company? (Remember that not long ago “AT&T Broadband” became the largest cable MSO when AT&T merged with TCI, only to sell its cable properties to Comcast after a few years of widely documented poor management of their cable business.)
5. What happens to the customer that does not want to take the package deal with telephony, broadband and video service? The Texas example shows that basic and expanded basic rates are not forced downward by competition from another wire line provider.
6. What happens to the rural customer? Will even less oversight require companies to go to areas with less density or service requirements? In the 2004 GAO report, the BSPs stated that income and the use of computers were two critical factors in choosing markets.
7. Are the telcos now going to offer a broadband service (that they did not have to in the past, and will still not be required to offer) in areas where the numbers do not work? We should be skeptical, given the historical experience of DSL deployment by telcos.