

Approved 5-6-92
Date

MINUTES OF THE House COMMITTEE ON Computers, Communications & Technology

The meeting was called to order by George Dean at
Chairperson

12:00 ~~am~~ p.m. on February 11, 1992 in room 529-S of the Capitol.

All members were present except:

Committee staff present: Representative Kline - Absent
Representative Patrick - Excused

Julian Efird, Research
Donna Stadel, Committee Secretary

Conferees appearing before the committee:

Ralph Skoog, Kansas CATV Association
Rick Comfort - Kansas CATV Association
Rob Marshall - Mid-America CATV Association

Others attending: See attached list.

Chairman Dean opened the meeting at 12:00 P.M., and called on Mr. Ralph Skoog, Kansas Cable Television Association, for answering questions regarding CATV.

Mr. Rick Comfort of Kansas CATV Association, introduced several others in the industry, and spoke in regard to basic rates for CATV (attachment 1). He also answered questions in connection with TCI and how they arrive at their rates.

Discussion followed regarding response time to cable outages. Mr. Comfort stated among the CATV systems he operates (Topeka, Ottawa, Garnett and Maple Hill), they respond within 24 hours; 95 percent of the time. Their goal is "same day service" and is usually met.

Rep. Rock asked about standards of service. Mr. Comfort said radio frequency interference is a potential problem in any cable television system. It is completely possible to have an absolutely clean television system serving an individual residence and have that individual receiver completely unable to receive cable television programming because of radio frequency interference leaking directly into the television tube.

Rob Marshall, Executive Director, Mid-America CATV Association, addressed the committee in regard to S.B. 12. He said there has been an effort for several years in the Senate to pass CATV legislation which would pretty much totally regulate the CATV industry. Exactly what it would do is not clear because it leaves a number of things for the FCC to study and figure out. It would provide that any person with reasonable business credentials would have access to cable programming services; limit the size of a cable system as far as how many subscribers they were allowed own and operate; loosen the franchise renewal process currently in place according to statute; raise the full exemption for telephone cross ownership rule from places with 2,500 population to places with 10,000 population; require cable operators to carry certain broadcast signals, or compensate somehow for those signals; and regulate interior wiring. It is a very comprehensive piece of legislation.

CONTINUATION SHEET

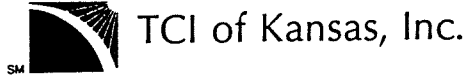
MINUTES OF THE House COMMITTEE ON Computers, Communications & Technology,
room 529-S, Statehouse, at 12:00 ~~a.m.~~/p.m. on February 11, 1992.

Discussion followed concerning blocking of X-Rated movies. Mr. Marshall indicated it was possible to block these, as well as certain channels on basic CATV. In some companies there is a one time charge for this service.

Rep. McKechnie moved that this committee introduce a bill and refer it to the Education Committee, to do away with out-district tuition for community colleges and place it within state funding. Seconded by Rep. Rock for discussion only. Motion carried.

Rep. Pauls mentioned that the minutes of January 28, needed to be corrected to show her present instead of excused. Rep. McKechnie moved for the above mentioned correction and adoption of the minutes of January 28. Seconded by Rep. Rock. Motion carried.

Meeting was adjourned until Wednesday, February 12, 1992.



Below are a number of cost per channel rates for our most popular level of basic service in a number of TCI communities. Three rates are given for each community, the first is either a start up rate or the earliest rate available, the second is the rate in 1986 and the third is the current rate in place today. Examining rates from a cost per channel perspective adjusts for changes in programming, but many other factors have to be taken into account in order to get a fair comparison of cable rates over time. Additional outlets are a good example. Today TCI does not charge for additional outlets, but it did in earlier years. Bottom line, today's rate delivers more service than ever before.

<u>City</u>	<u>Early</u>	<u>1986</u>	<u>1992</u>
Topeka	.66	.50	.63
Dodge City	.63	.54	.77
Salina	.63	.94	.68
Garden City	1.30	.47	.63
Ark City/Winfield	.79	.77	.89
Hutchinson	.83	1.14	.67

House CCT
Attachment 1
2-11-92

REREGULATION OF CABLE TELEVISION RATES WOULD CHOK OFF INVESTMENT IN NEW PROGRAMMING AND IMPROVED CABLE TECHNOLOGY

December 1991

In 1984, Congress passed the Cable Communications Policy Act, which deregulated cable rates effective January 1987, while preserving substantial local government regulatory authority in such areas as franchising cable systems and setting customer service requirements. The Act provided the two factors necessary for cable operators to invest in their systems and services for the long term: regulatory stability and the ability to price and package services independently.

Some industry groups and Members of Congress now are calling for reregulation of the cable industry by local governments—in effect a return to the days before deregulation when city councils voted on any rate increase proposed by the local cable operator. Rolling back the clock will choke off investment in new programming and improved cable technology. The result would be a freeze on the development of new cable networks and innovative services, and a delay in the introduction of new technology, like fiber optics, video compression, and HDTV.

The debate about the 1984 Cable Act has been marked by a range of claims—many of these are unfounded. Cable television has indeed changed since the Cable Act passed. Here are the facts.

1. Cable Rates: A 1991 General Accounting Office study found that the average customer's overall monthly bill (reflecting all services and options) increased by 26 percent from November 1986 to December 1990. Rates for the type of basic cable service purchased by most subscribers rose by 61 percent from \$11.71 per month in November 1986 to \$18.84 per month in April 1991. While these increases are not inconsequential, they reflect the fact that **cable rates were kept artificially low under city regulation**. Between 1972 (the year the FCC first affirmed local regulation of cable rates) and 1986, increases in basic cable rates lagged behind inflation 72 points.

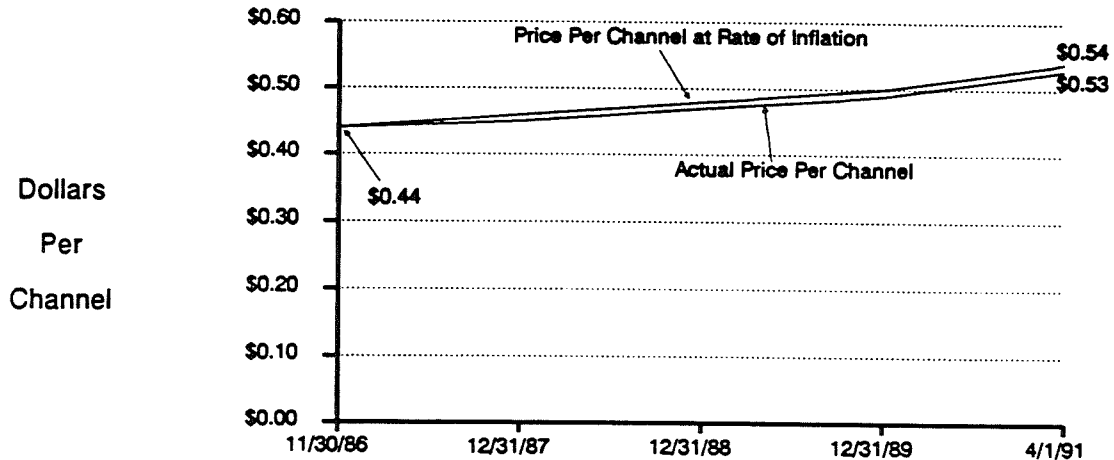
Moreover, **consumers receive more for their money today**. In 1972, they typically received five or six channels; today's average consumer receives over

National Cable Television Association
1724 Massachusetts Avenue NW
Washington, DC 20036-1969
(202) 775-3550

35 channels. Reflecting this growth in available channels, since deregulation in 1987 the price per channel has increased just nine cents, from 44 cents to 53 cents.

It should also be noted that the increase in the price per channel has lagged behind inflation since deregulation. As noted above, between November 30, 1986 (prior to basic price deregulation) and April 1, 1991, the cost per basic channel increased from \$0.44 to \$0.53, an increase of approximately 20 percent. During that same time period, the overall CPI increased 22.5 percent. Therefore, had the cost per basic channel simply kept pace with inflation, the cost per channel would have been \$0.54 in April 1991, an amount slightly greater than the actual cost per basic channel (\$0.53). (See Chart 1.) The price per channel calculation of cable prices, as computed by the GAO, represents a good measure of cable price changes, since it reflects not only price increases but the expanding "package" of services that cable subscribers have received since deregulation.

Chart 1
Inflation-Adjusted Price Per Channel vs. Actual Price Per Channel
November 30, 1986 – April 1, 1991

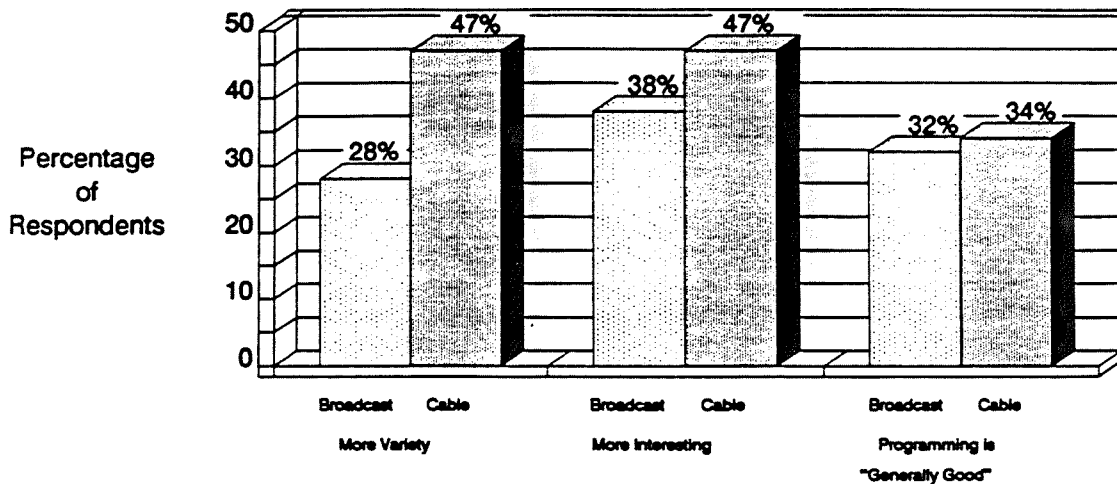


Source: US. General Accounting Office. "1991 Survey of Cable Television Rates and Services," July 1991. Inflation based on Bureau of Labor Statistics, Consumer Price Index. Adjustment assumes price per channel grew at rate of inflation, beginning in November 1986. It should be noted that GAO presents "inflation-adjusted" data on page 5 of its report.

Cable also is clearly a good entertainment value compared to the price of taking a family of four to the movies (\$18.99) or a baseball game (\$32.36) just once. GAO reported that the average monthly price of basic cable was \$18.84 in April 1991 -- and cable's subscribers received more than 35 channels of news, movies, sports, educational, and other programming.

In addition to the increased number of channels, subscribers receive higher quality programming from cable television. Indeed, the results of a 1990 Roper Poll indicate that the public perceives that cable has more variety, is more interesting, and is just generally better than conventional broadcast television. (See Chart 2.)

**Chart 2
RESULTS OF 1990 ROPER POLL**



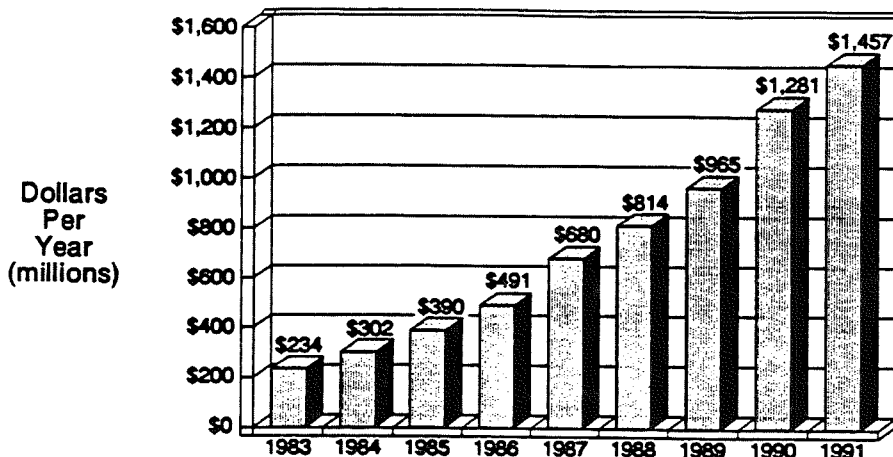
Source: The Roper Organization, "The Public Pulse," April 1990, p. 4.

2. Benefits of Deregulation: Prior to deregulation, city councils often refused to authorize rate increases—fearing to be “on record” for voting for raising prices. The result of this caution was predictable: not only were cable rates held artificially low (cable rates were held 72 points below inflation from 1972 through 1986), but operators consequently did not have the resources needed to invest in new programming or to upgrade their plant and equipment.

Deregulation has reversed this trend and led to substantial investments in programming and plant and equipment—investments that have directly benefited consumers.

- Cable operators’ annual investments for basic cable programming have jumped from about \$300 million in 1984, when the Cable Act was passed, to almost \$1.5 billion in 1991-- a five fold increase, as Chart 3 shows. This investment has led to the dramatic increase in both the availability and quality of basic cable program networks such as Nickelodeon, The Discovery Channel, Black Entertainment Television, ESPN, and CNN.

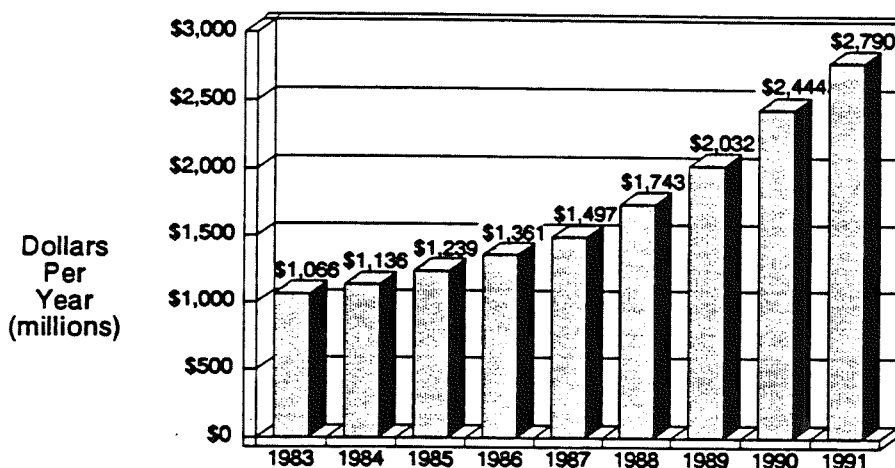
**Chart 3
CABLE SYSTEMS' EXPENDITURES
FOR BASIC CABLE PROGRAMMING
1983 - 1991**



Source: NCTA estimate based on Paul Kagan Associates, Inc. data. Pre-1983 data not available.

- Overall spending by both basic cable networks and premium networks (like HBO, Showtime and Disney) for programming also has been stimulated by deregulation, nearly tripling from about \$1.1 billion in 1984 to more than \$2.79 billion in 1991. This spending, again, has directly benefited consumers, helping to support the broad array of new and original programming on cable television.

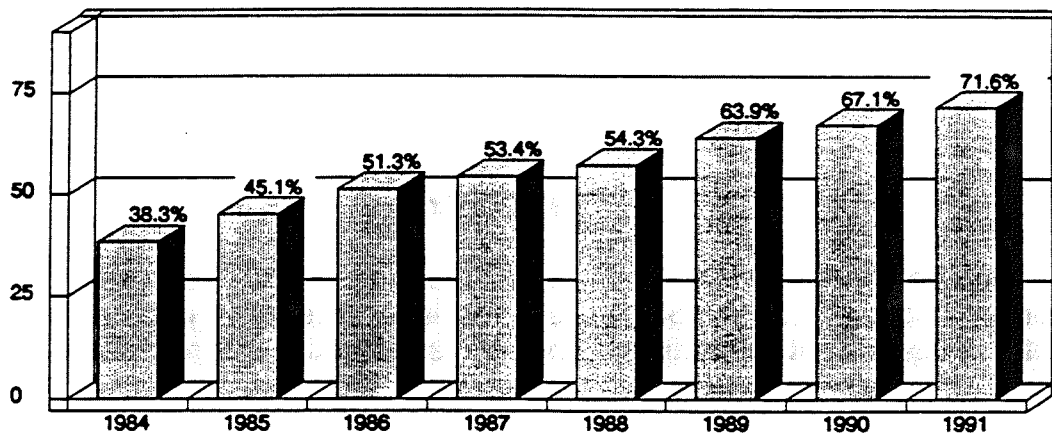
**Chart 4
TOTAL CABLE NETWORK (BASIC & PREMIUM)
PROGRAMMING EXPENDITURES
1983-1991**



Source: Paul Kagan Associates, Inc. Pre-1983 data not available.

- Similarly, deregulation has enabled operators to increase substantially their investments in plant and equipment; spending for this purpose has totalled over \$5.4 billion since 1984. These investments have also benefited consumers by increasing the number of channels available. Likewise, this investment has improved picture quality and reliability. In fact, since 1984, the percentage of cable systems with channel capacity of thirty channels or more has risen significantly. (See Chart 5.) Indeed, today almost one quarter of cable subscribers receive 60 or more channels.

Chart 5
PERCENTAGE OF CABLE SYSTEMS WITH CHANNEL CAPACITIES
OF THIRTY CHANNELS OR MORE



Source: Warren Publishing, *Television & Cable Factbook, Cable & Services Volume*, various years. Excludes systems for which information was not available.

Moreover, the cable industry plans to spend \$14.7 billion by the year 2000 to further upgrade plant and equipment. Much of this spending will be used to apply fiber optic technology to enhance and supplement cable's existing broadband network, resulting in more channels and better picture quality. In fact, a cable system serving Brooklyn and Queens, NY recently launched a 150 channel state-of-the-art system offering virtual movie-on-demand and a wide array of interactive video and information services. Indeed, one industry analyst estimates that cable industry deployment of fiber will grow at an annual rate of 25 percent over the next decade.

In addition, through Cable Labs, the industry's research and development consortium, the cable industry will continue to test the latest in high-definition television, video compression, and other innovative uses of cable technology.

3. Customer Service: The cable industry has faced customer service problems. In part, this reflects the dramatic growth in the number of homes that subscribe to cable – from 14 million at the beginning of the 1980s to more than 55 million today. Many operators simply did not have the facilities in place to manage this growth. However, the cable industry moved aggressively in 1990 to address the issue of customer service.

In February 1990, the National Cable Television Association Board of Directors adopted a comprehensive set of customer service standards which address areas of particular concern to subscribers: expanded office and telephone availability; prompt installations and service calls; reduced outages; and accurate communications, timely bills, and refunds. Many companies implemented programs and upgraded plant and equipment in order to meet the recommended customer service standards by July 1991. Indeed, a July 1991 survey of cable systems revealed that approximately 85 percent of systems representing 70 percent of subscribers were in compliance with the NCTA customer service standards.

SUMMARY

If the cable industry is forced to return to the pre-1984 regulatory regime, when city councils set cable rates – and investments in programming and plant and equipment were stifled – then the substantial progress that the cable television industry has made in improving the diversity and quality of television for American consumers will be stopped in its tracks.

In particular, the effect of reregulation on emerging cable networks that meet needs the broadcast networks have never adequately served will be immediate and severe. The revenues generated by deregulation will not be available for operators to continue to invest in purchasing programming from these networks.

Cable television has begun to emerge not only as more television – but rather as different and often better television. The recent crisis in the Persian Gulf highlighted cable's ability to provide crucial 24-hours-a-day news coverage on CNN. Likewise, cable television is quality children's programming on Nickelodeon; it is round-the-clock sports on ESPN; it is documentaries on The Discovery Channel; it is gavel-to-gavel coverage of Congress on C-SPAN; it is the only network devoted to black Americans, BET.

Cable rate deregulation is five years old, and already the cable television industry is fulfilling its promise. Should the future of cable and the distinctive programming it offers to consumers be thrown back into the chambers of city councils?

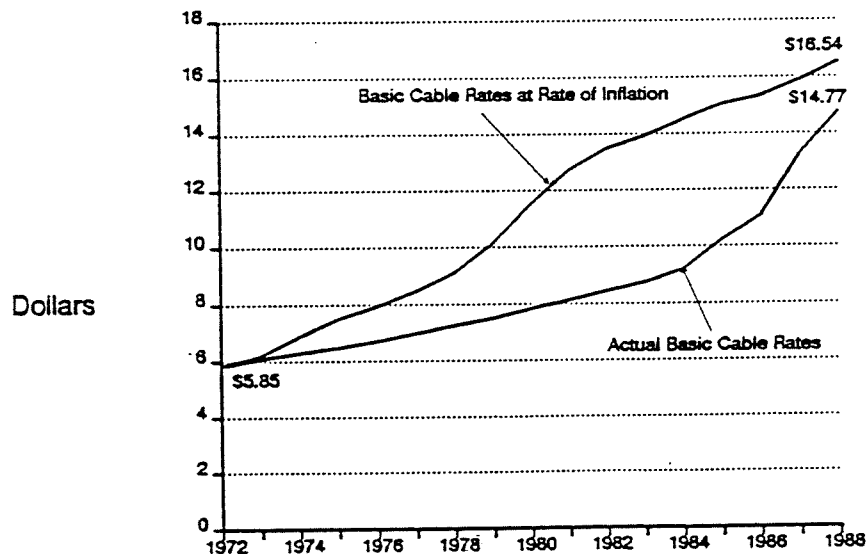
RATE DEREGULATION

History

Prior to December 1986, cable systems had to obtain permission from their local franchising authorities to increase prices for their basic service tiers of programming. On December 29, 1986, most cable systems became free to price basic service without local government approval.

An examination of historical basic service prices clearly indicates that basic service prices were held down artificially low under municipal rate regulation and indeed still lag behind inflation two years post-deregulation. From 1972 (the year the FCC first affirmed local regulation of cable rates) to 1986, cable rate increases ran 72 percentage points behind the increase in inflation. Indeed, had basic service prices simply kept pace with inflation since 1972, the average price of basic service as of year-end 1988 would have been \$16.54. Instead, the available data indicate that the year-end 1988 average price of basic service was \$14.77.

**Inflation-Adjusted Basic Cable Rates vs. Actual Basic Rates
1972 - 1988**



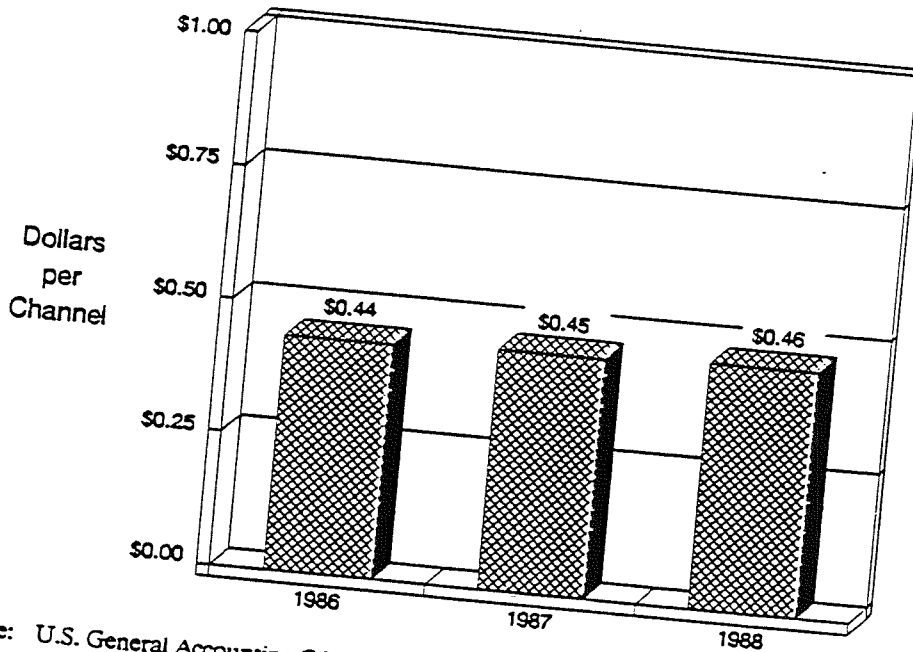
Source: 1972-1987: Estimate of Paul Kagan Associates, Inc.; 1988: U.S. General Accounting Office, "National Survey of Cable Television Rates and Services," August 1989. Inflation based on Bureau of Labor Statistics, Consumer Price Index. Adjustment assumes basic cable rates grew at rate of inflation, beginning in 1972.

And today, consumers receive more for their monthly subscription. Over the time period 1972-1988, cable service increased from typically less than a dozen broadcast stations to over thirty channels of programming consisting primarily of cable-originated programming.

Cable Prices Since Deregulation

On August 3, 1989, the General Accounting Office (GAO) released the results of a nationwide survey of cable service pricing changes from December 1986 through October 1988. The GAO examined changes in not only the prices for basic cable service, but also the prices for premium and optional services (such as remote control rentals). The GAO survey found that although the average customer's monthly bill (which GAO characterizes as the "bottom line" after accounting for the various changes in basic rates, options, and premium channels) rose 14 percent since 1986, the number of basic channels received by the average customer increased by 21 percent. Moreover, although the average monthly cost of basic service rose by \$3.07 from 1986 to 1988, the cost per channel for basic service rose by only \$.02 over the same time period.

GAO Survey Results:
Costs Per Basic Service Channel
1986 - 1988

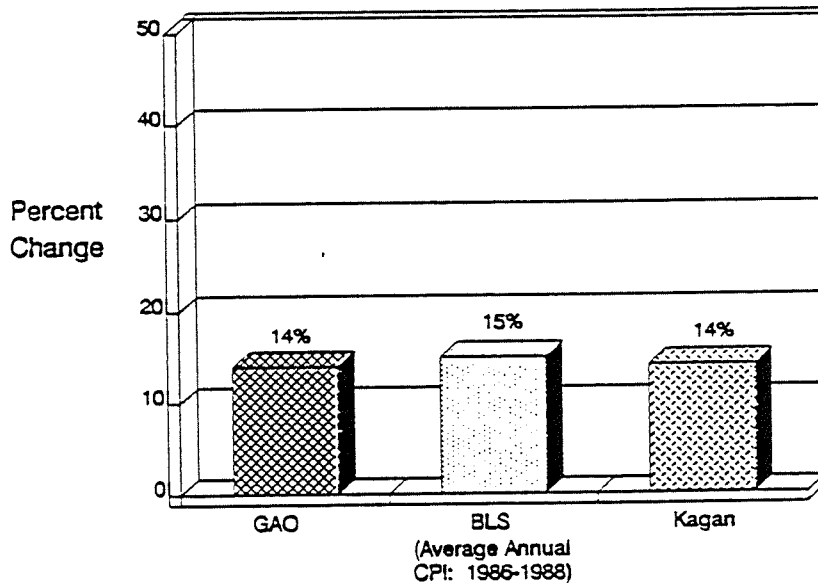


Source: U.S. General Accounting Office.

1-9

GAO's finding that the bottom-line increase in the average consumer's monthly bill was 14 percent is consistent with the other leading sources of data on post-deregulation cable service pricing changes. The two primary sources of such pricing data are the Bureau of Labor Statistics and the media analysis firm Paul Kagan Associates, Inc. As the following chart illustrates, all three sources show that the average customer's monthly bill (total cable service revenue per subscriber) has increased by approximately 14 to 15 percent since deregulation.

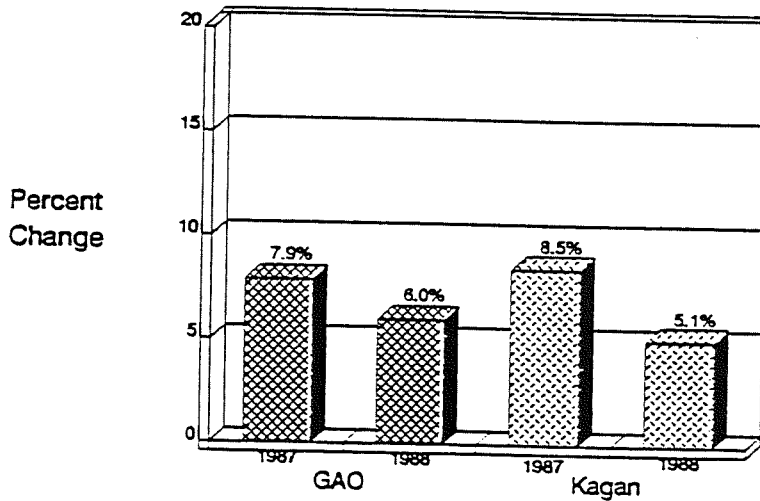
**Changes In the Average Customer's Monthly Bill
1986 - 1988**



Source: U.S. General Accounting Office; Bureau of Labor Statistics; Paul Kagan Associates, Inc..

Moreover, all three sources provide evidence that the growth in cable prices is slowing down. Both GAO and Kagan data show that the average customer's monthly bill increased at a slower rate in 1988, the second year of deregulation, than it did in 1987.

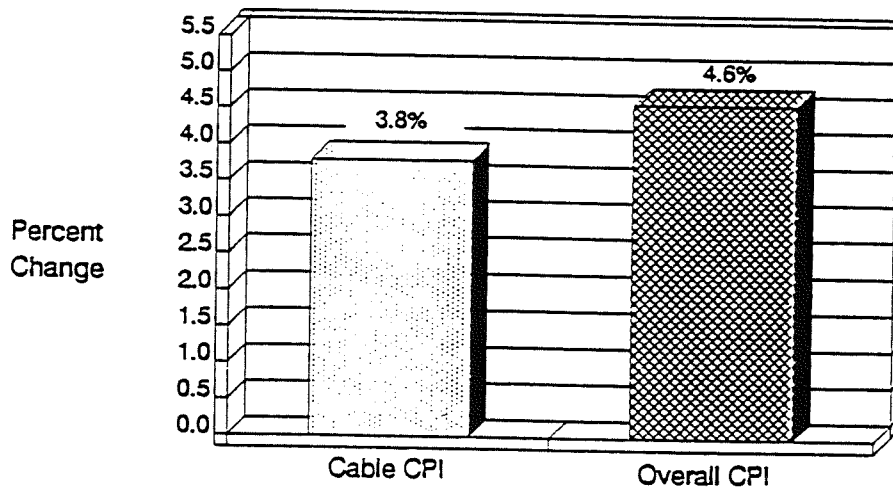
**Percent Change in the Average Consumer's Bill
1987, 1988**



Source: U.S. General Accounting Office; Paul Kagan Associates, Inc.

The CPI data also indicate that the rate of increase in cable prices has slowed considerably, and indeed, rose slower than the rate of inflation for 1989.

**Change in Cable Prices Vs.
Overall Consumer Prices for 1989**



Source: Bureau of Labor Statistics. Overall CPI as of December 1988, 120.5; as of December 1989, 126.1. Cable CPI as of December 1988, 141.4; as of December 1989, 146.8

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89, 90, 91

Findings of the U.S. General Accounting Office Survey of Cable Television Rates and Services: 1986-1989

June 1990

Summary

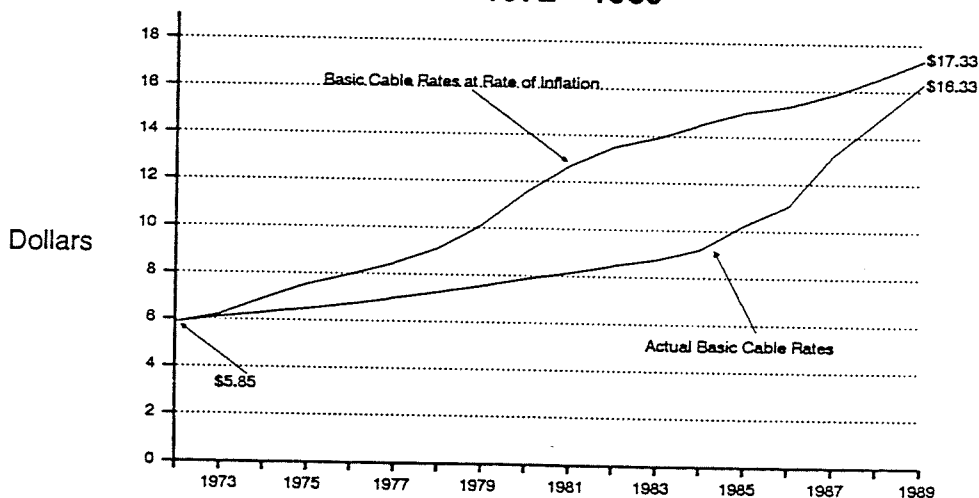
The U.S. General Accounting Office (GAO) has released a nationwide survey of cable television rates and services which serves as a follow-up to an earlier GAO survey released in August 1989. This update shows that although the price of basic cable service rose by about 10 percent in 1989, the average cable customer's monthly bill rose at approximately the rate of inflation during 1989, while the monthly cost per basic channel rose by only \$0.02 (from \$0.47 to \$0.49). The report further shows that the rate of cable price increases has been slowing down since 1987, the first year of deregulation.

Background

In August 1989, Edward Markey (D-MA), Chairman of the House Telecommunications Subcommittee, asked the General Accounting Office (GAO) to conduct a follow-up to its initial survey of cable service prices. This earlier GAO survey, which had also been requested by Chairman Markey, had been designed to measure how cable service prices changed since basic service price deregulation took effect on December 29, 1986.

Prior to rate deregulation, cable systems had to seek permission from their local governments to raise the price of basic service. As a consequence, cable rates were held down artificially low. Indeed, even after three years of deregulation, basic service prices still lag behind inflation. Had basic prices simply kept pace with inflation since 1972 (the year the FCC first affirmed local regulation of cable rates), the average price of basic service as of year-end 1989 would have been \$17.33. Instead, the year-end 1989 price of basic service was \$16.33.

**Inflation-Adjusted Basic Cable Rates vs. Actual Basic Rates
1972-1989**



Source: 1972-1987: Estimate of Paul Kagan Associates, Inc.; 1988-1989: U.S. General Accounting Office, "Follow-up National Survey of Cable Television Rates and Service," June 13, 1990. Inflation based on Bureau of Labor Statistics, Consumer Price Index. Adjustment assumes basic cable rates grew at rate of inflation, beginning in 1972.

And today, consumers receive more for their monthly subscription. Over the time period 1972-1989, cable service increased from typically less than a dozen broadcast stations to 34 channels of programming consisting primarily of cable-originated programming.

Initial GAO Survey

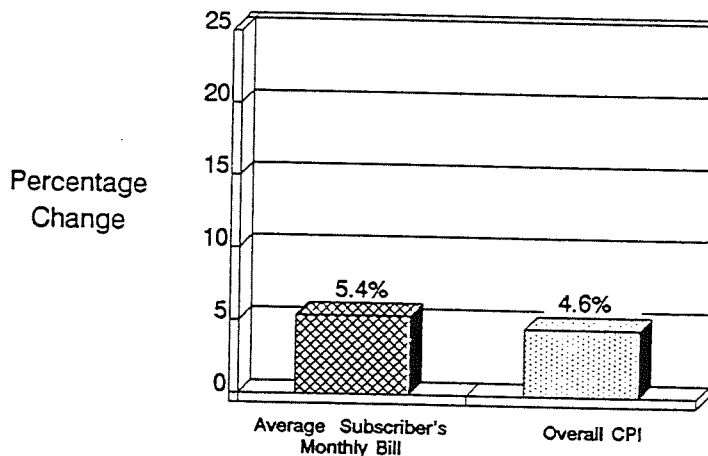
In its initial survey, the GAO examined the prices for cable service (including basic, premium and optional services such as remote control rentals) from December 1986 through October 1988. The survey found that although the average customer's monthly bill (which the GAO characterized as the "bottom-line" after accounting for the various changes in basic rates, options and premium channels) rose 14 percent since 1986, the number of basic channels received by the average customer increased by 21 percent. Moreover, although the average monthly cost of basic service rose by \$3.07 from 1986 to 1988, the cost per channel for basic service rose by only \$0.02 over the same time period.

The GAO Follow-up Survey for 1989

The GAO's follow-up survey focused on the changes in cable prices that had occurred in 1989. According to this survey, the average customer's monthly bill rose approximately 5 percent during 1989, from \$25.00 to \$26.36, an increase that is roughly comparable to the overall 4.6% inflation rate for 1989.

but more than inflation

GAO Survey Results: Percentage Change in Average Subscriber's Monthly Bill Versus Percentage Change in Overall CPI in 1989

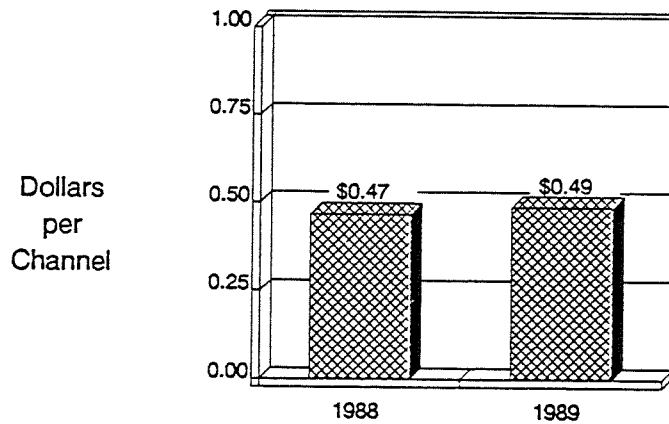


Source: U.S. General Accounting Office, "Follow-up National Survey of Cable Television Rates and Services," June 13, 1990.

The survey further found that the price for the most popular basic service tier¹ rose by \$1.42, from \$14.91 to \$16.33, while the average price per channel for basic service rose by \$0.02, from \$0.47 to \$0.49.

¹ The average monthly cost of basic service equates to GAO's "most popular tier" cost. In essence, the GAO's "most popular tier" figure represents a weighted average cost per subscriber for basic cable service. According to GAO, "since most systems have only one tier of basic service, the most popular service is generally also the lowest priced service."

GAO Survey Results: Costs Per Basic Service Channel 1988, 1989



*Current
1992
> Kansas
rates
are
higher
between
60-80¢ per
channel*

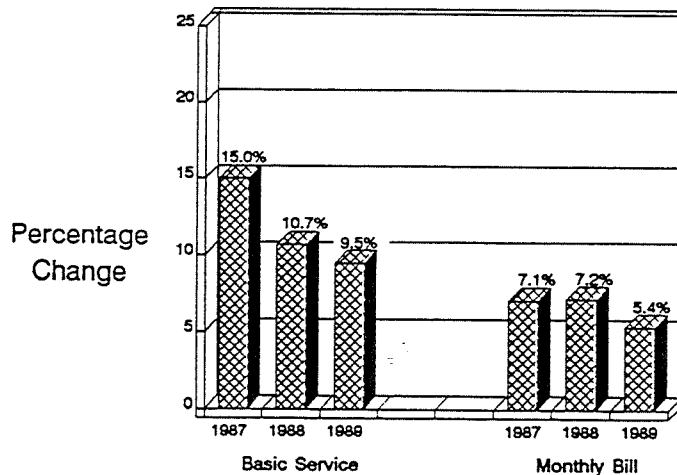
Source: U.S. General Accounting Office, "Follow-up National Survey of Cable Television Rates and Services," June 13, 1990.

Trend Since Deregulation: The GAO Follow-up Survey for 1986 Through 1989

According to the GAO data, since deregulation, the average cable customer's monthly bill has increased from \$21.78 in 1986 to \$26.36 in 1989. The price for the most popular basic service tier increased from \$11.71 in 1986 to \$16.33 in 1989. However, given the growth in the number of channels (from 27 to 34) offered on basic service since 1986, the monthly cost for each channel of basic service has increased from \$0.44 to \$0.49.

The GAO report further shows that the rate of increase in both the monthly price of basic, as well as the bottom-line bill for service, has been slowing down since deregulation took effect.

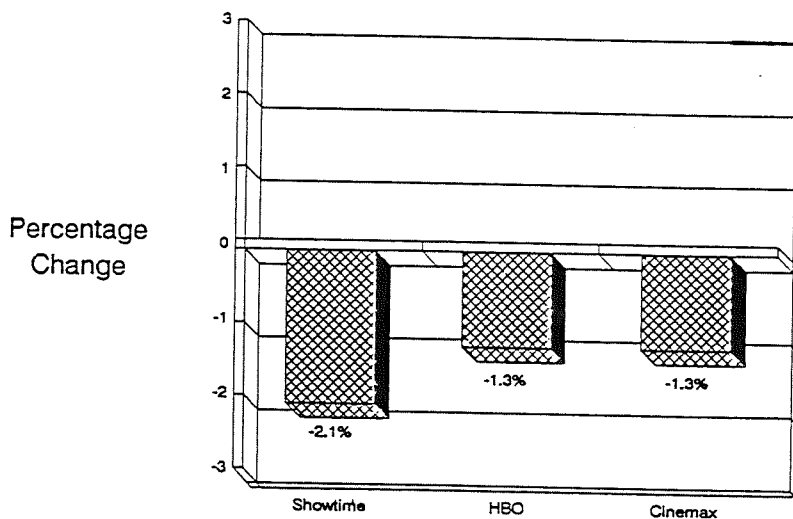
GAO Survey Results: Rate of Increase in Basic Service and Monthly Bill



Source: U.S. General Accounting Office, "Follow-up National Survey of Cable Television Rates and Services," June 13, 1990.

The prices for premium channels, such as HBO and Showtime, have declined since deregulation. According to the GAO report, from 1986 to 1989, the price of HBO dropped by 1.3% (from \$10.37 to \$10.24), the price of Showtime dropped by 2.1% (from \$10.23 to \$10.02), and the price of Cinemax dropped by 1.3% (from \$9.93 to \$9.80).

GAO Survey Results: Change in Premium Prices 1986 to 1989



Source: U.S. General Accounting Office, "Follow-up National Survey of Cable Television Rates and Services," June 13, 1990.

Results of the U.S. General Accounting Office Survey of Cable Television Rates and Services

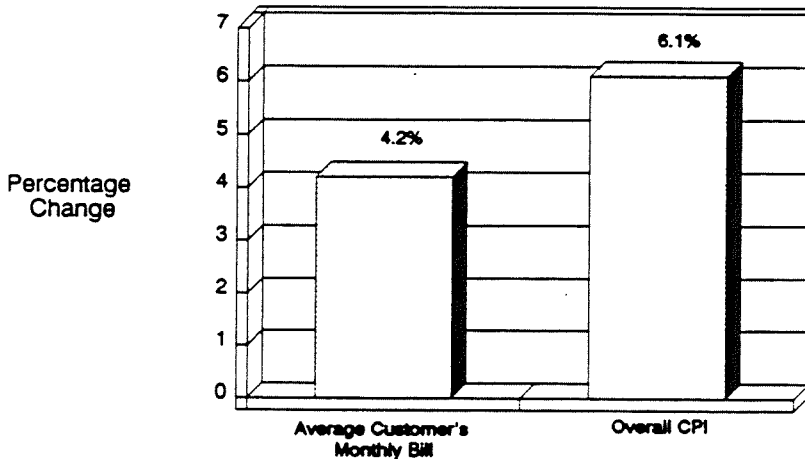
July 1991

SUMMARY

The U. S. General Accounting Office (GAO) has released its third survey of cable television rates and services, which was intended to be a follow-up to the GAO survey released in June 1990. Unlike the previous two GAO surveys, this latest survey is limited in scope and suffers from numerous methodological flaws. (See attached discussion.) In particular, for many of the cable systems the time period covered by the GAO survey represents two years worth of rate increases.

Notwithstanding the reliability of the survey's results, the study shows that the average customer's monthly cable bill -- which the GAO has characterized as the "bottom line" -- rose less than the rate of inflation during 1990. Moreover, the study shows that the average customer's monthly bill increased at a slower rate in 1990 than it has in any year since 1986, when cable prices were deregulated.

Percentage Change in Average Customer's "Bottom Line" Monthly Bill Versus Percentage Change in Overall CPI in 1990



Handwritten note: Avg PPC of Kansas = \$0.71

Source: U.S. General Accounting Office, "1991 Survey of Cable Television Rates and Services," July 1991; Bureau of Labor Statistics, Overall CPI as of December 1989, 126.1; as of December 1990, 133.8.

The GAO study further shows that the number and variety of basic service channels have increased along with the nominal basic service price increases, resulting in an increase in the price per basic channel of four cents, from \$0.49 in December 1989 to \$0.53 in April 1991. Indeed, since basic service price deregulation took effect on December 29, 1986, the increase in the average price per basic channel has fallen short of the increase in overall consumer prices. Had the basic price per channel simply kept pace with inflation since December 1986 (when rate deregulation took effect), the average price per channel as of April 1991 would have been \$0.54. Instead, the price per channel as of April 1991 was \$0.53.

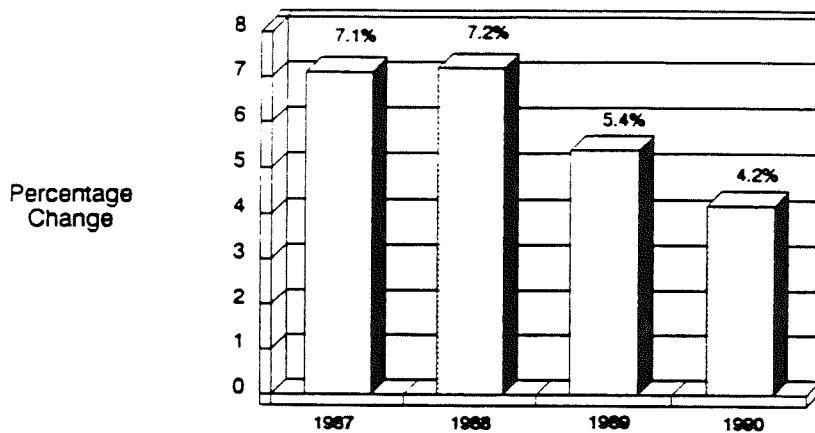
Finally, the GAO study shows that despite whatever basic price increases may have occurred in 1990 and through the first quarter of 1991, basic cable remains a good entertainment value at \$18.84.

The Average Subscriber's "Bottom Line" Monthly Bill Increased Less than the Rate of Inflation in 1990

The GAO obtained from the responding cable systems data for the average monthly revenue per subscriber, which the GAO has said is "the bottom line" measurement of cable prices because it is equivalent to the average customer's monthly bill. According to this survey, the average customer's monthly bill rose approximately 4 percent during 1990, from \$26.36 to \$27.47, an increase that was roughly two percentage points less than the overall 6.1% inflation rate for 1990.

Moreover, the GAO survey shows that the growth in cable prices continues to slow. According to GAO, the average customer's monthly bill increased at a slower rate in 1990 than it has in any year since deregulation.

**Percentage Change in the Average Consumer's Bill
1987 - 1990**

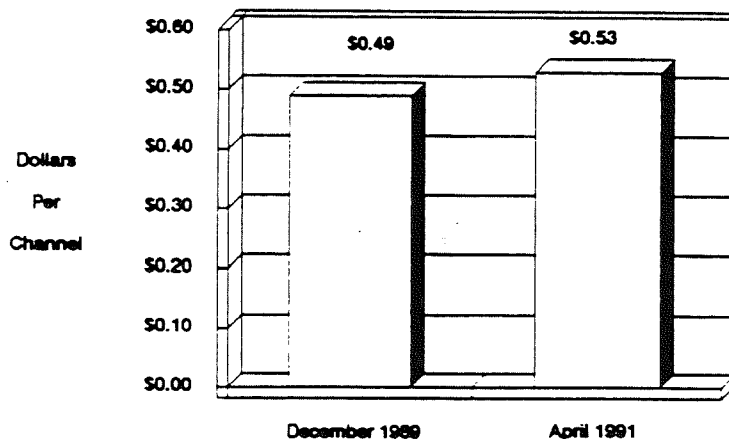


Source: U.S. General Accounting Office, "1991 Survey of Cable Television Rates and Services," July 1991, and "Follow-up National Survey of Cable Television Rates and Services, June 13, 1990.

The Price Per Basic Channel Has Increased Only Slightly

Although the nominal price of basic cable service has undoubtedly increased, the GAO study itself shows that the number of cable channels has also increased and that the cost per channel has gone up by only four cents since December 1989. According to the previous GAO survey, the most popular tier of basic cable service consisted of 33.6 channels and cost \$16.33 in December 1989. Thus, the price per basic channel grew by only about four cents, from \$0.49 in December 1989 to \$0.53 in April 1991.

**Price Per Channel
December 1989 - April 1991**

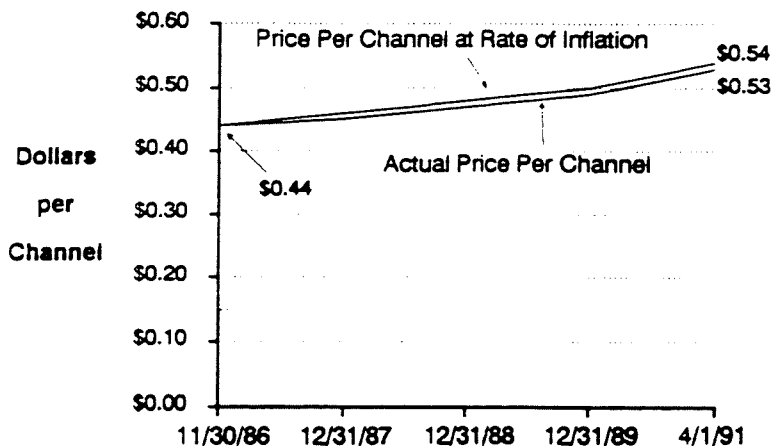


Source: U.S. General Accounting Office, "1991 Survey of Cable Television Rates and Services," July 1991.

Since Deregulation, Increases in the Price Per Basic Channel Have Lagged Behind Inflation

Between November 30, 1986 (prior to basic price deregulation) and April 1, 1991, the cost per basic channel increased from \$0.44 to \$0.53, an increase of approximately 20 percent. During that same time period, the overall CPI increased 22.5 percent. Therefore, had the cost per basic channel simply kept pace with inflation, the cost per channel would have been \$0.54 in April 1991, an amount slightly greater than the actual cost per basic channel (\$0.53). The price per channel calculation of cable prices, as computed by the GAO, represents a good measure of cable price changes, since it reflects not only price increases but the expanding "package" of services that cable subscribers have received since deregulation.

**Inflation-Adjusted Price Per Channel vs. Actual Price Per Channel
November 30, 1986 – April 1, 1991**

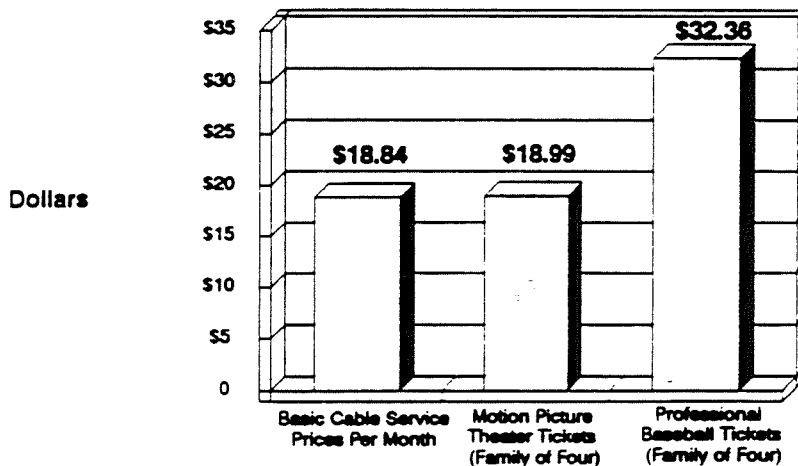


Source: US General Accounting Office, "1991 Survey of Cable Television Rates and Services," July 1991. Inflation based on Bureau of Labor Statistics, Consumer Price Index. Adjustment assumes price per channel grew at rate of inflation, beginning in November 1986. It should be noted that GAO presents "inflation-adjusted" data on page 5 of its report.

At \$18.84 for Basic Cable Service, Cable is a Good Entertainment Value

According to the GAO study, the average monthly basic cable price was \$18.84 in April 1991 for which cable's customers received 35.3 channels of diverse entertainment and informational programming. Compared to the price of taking a family of four to the movies (\$18.99) or a baseball game (\$32.36) just once, cable clearly is a good entertainment value.

Prices of Various Forms of Entertainment



Source: Cable rates—U.S. General Accounting Office, "1991 Survey of Cable Television Rates and Services," July 1991; motion picture theatre tickets—Variety, February 11, 1991, p. 3; professional baseball tickets—Major League Baseball.

As further evidence of cable's value is the fact that despite nominal price increases, consumers are purchasing cable service in record numbers. From November 1989 to May 1991 (a time period roughly corresponding to that of the GAO's new study), the number of cable homes grew from 52.6 million to 56.1 million. Measured as a percentage of all TV households, cable subscriptions rose from 57.1% to 60.3%.

Methodological Flaws in the GAO Study

- (1) The time period covered by the GAO study (December 1989 through April 1991) reflects two years' worth of rate increases for many of the systems that responded to the survey. Many, if not most, cable systems raise prices during the first three months of the year.

For example, Cox Cable in Saginaw, MI reported to the GAO that its basic price increased by 18 percent from \$15.58 in December 1989 to \$18.35 in April 1991. However, this increase encompasses two annual rate increases. On February 1, 1990, Cox Cable-Saginaw increased its basic rate by \$1.32 (or 8.5%), from \$15.58 to \$16.90. On February 1, 1991, the system increased basic rates an additional 8.6% to \$18.35.

Thus, the December 1989 to April 1991 time frame used by the GAO covers not only rate increases which occurred during 1990, but also rate increases which occurred during the first quarter of 1991. This 15-month span differs from previous GAO surveys which tracked annual rate increases.

- (2) The following is a list of problems that are inherent in the methodology and design of the GAO study and serve to undermine the validity of the study's results. NCTA has informed both the GAO and Edward Markey (D-MA), Chairman of the House Telecommunications Subcommittee (who requested the study), of our concerns about the study's design.

- By selecting only those systems who responded to last year's survey, the GAO created a biased, non-random sample.
- The GAO failed to collect pricing data for all points in time for which pricing changes may be presented. Specifically, the GAO did not collect pricing data for December 1989. Therefore, any attempt by the GAO to compare cable prices across these years (or since deregulation) is statistically invalid due to the incomparability of data across different samples.
- The GAO chose an obviously atypical month (March 1991) to collect data on total revenue per subscriber data (which can be considered to reflect the customer's monthly cable bill). March 1991 was an atypical month for the cable industry because the Tyson-Ruddock fight of March 18 was the third largest pay-per-view event in cable's history, a fact that will show up in GAO's study as significantly (and artificially) increased revenue per subscriber.

For example, the carriage of the Tyson-Ruddock fight by Continental Cablevision's system in Downey, CA grossly inflated that system's March 1991 revenue per subscriber data. Clearly \$3.32, or over 8 percent, of the reported \$39.82 revenue per subscriber was attributable to the fight.

Municipality	Jan-80	Feb-92	Current Cost/Channel
Garden City	7.25	20.77	0.83
Hutchinson	8.50	18.74	0.81
Salina	8.50	17.09	0.68
Topeka	9.00	18.69	0.72
Wichita	13.90	20.50	0.64

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Cable viewers will tune in to higher prices

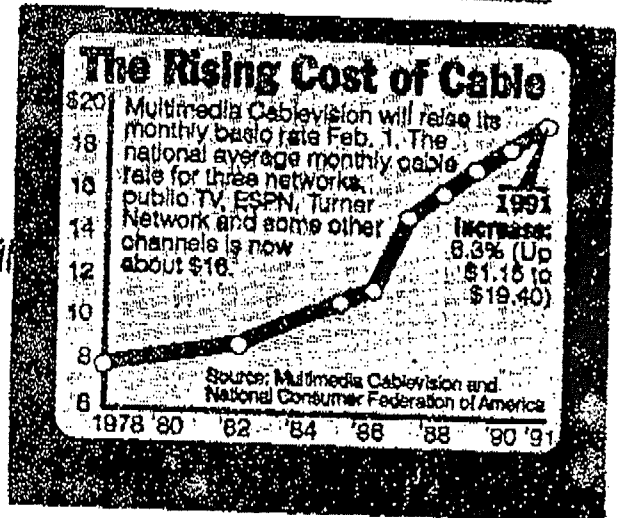
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By Kjerstin Gabrielson
The Wichita Eagle

Wichita cable viewers will pay more starting Feb. 1. The \$18.25 monthly bill for basic service will be increased to \$19.40, an increase of \$1.15, or 6.3 percent. The average cable monthly rate in the United States is about \$16, according to the National Consumer Federation of America.

Mike Burrus, vice president of operations at Multimedia Cablevision, said the rate for HBO would also increase, from \$8.95 to \$9.95 a month, an 11.6 percent increase. The rates for the other pay channels — Cinemax, Disney and Showtime — will not change.

Neither will the number of channels, now 33, or



The Wichita Eagle

services Multimedia offers its 92,000 subscribers in Wichita and its suburbs, where the rate increase will take effect.

See **CABLE**, Page 6A

CABLE

From Page 1A

Burrus attributed the latest rate increase to growing programming costs, and higher gasoline and postage prices.

"Programming services themselves are investing a lot more into the product, and those increases are getting passed on to us," Burrus said.

Original productions by cable networks increase programming costs for cable networks. For example, TNT broadcasts two made-for-cable productions a month, and TNT and ESPN have expanded NFL football coverage from eight to 16 weeks, he said.

Almost every network costs Multimedia more this year, Burrus said.

"Our programming cost increases are running about three times higher than the percentage increase we're passing to our customers," Burrus said.

Burrus said Multimedia was planning on postage prices to go up 26 percent, and gas prices to increase 20 percent to 25 percent.

Multimedia raised the basic rate by \$1 in January 1990, the most recent rate increase. Next month's increase will be the sixth since the cable television industry was deregulated in 1984 and the eighth since Multimedia began operations in Wichita in 1978.

Since 1985, yearly increases in the basic rate were about 14 percent on average. The largest increase, 30 percent in 1985, followed deregulation. Since then, prices have gone up about 6 percent each year.

Across the United States, the average subscription rate for basic cable service has increased 28.9 percent since cable was deregulated fully in 1987, according to the General Accounting Office.

Legislation that may set price ceilings on the cost of cable service is expected to be introduced when Congress reconvenes this month. The legislation could also enable local governments to file complaints about service or excessive costs.

GAO: Basic Cable Rate Increased 10% Last Year

By Paul Farhi
Washington Post Staff Writer

The cost of basic cable television service climbed 10 percent last year, more than twice the rate of inflation, and has risen more than 43 percent in the three years since Congress gave cable operators the right to set their own prices, a government study said yesterday.

The report by the General Accounting Office comes as the House and Senate consider bills that would reestablish some government control over the prices that cable systems may charge. As such, both sides of the re-regulation issue tried to put the most favorable spin on the GAO's findings.

Proponents of re-regulation said yesterday the report provided proof that the cable industry, which operates without direct competition in most communities, has taken advantage of deregulation to gouge consumers. "You don't have to be Dick Tracy to realize that there are some bad guys in the cable business and that Congress has to do something about it," said Rep. Edward J. Markey (D-Mass.), chairman of the House subcommittee that ordered the GAO report.

But representatives of the cable industry pointed out that the study showed that the rate of price increases has declined during each of the

past three years. According to the GAO, the average price of the lowest-priced basic service was up almost 17 percent in 1987, 11.5 percent in 1988 and 10 percent last year.

In 1989, basic service cost \$15.95 a month compared with \$14.50 the year before and \$11.14 in 1986, the last year rates were regulated.

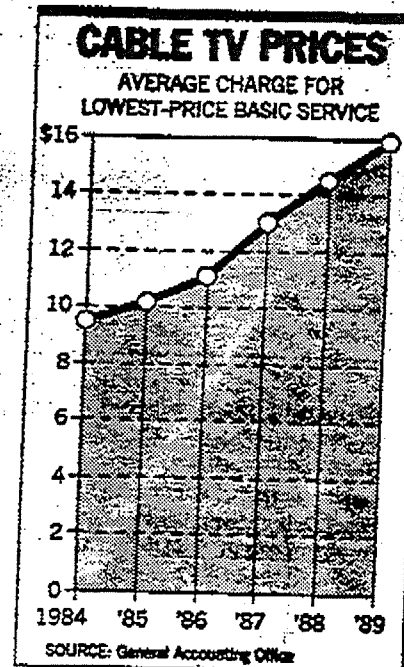
Further, the report found that the average subscriber's total monthly bill—which takes into account the cost of basic service, premium channels such as HBO and optional add-ons such as hooking up a second TV set—grew only 5 percent to \$26.36 in 1989, about even with inflation.

"This . . . is still further evidence that cable rate increases have leveled off," said James P. Mooney, president of the National Cable Television Association, in a prepared statement.

John M. Ols Jr., who directed the rate study for the nonpartisan GAO, called the price increases since deregulation "significant" and said the findings suggested that "some form of interim rate regulation may be necessary."

Ols also said that consumers were more likely to drop premium services and other options as the cost of basic service rose. This, he said, would explain why the total monthly bill was up only at the inflation rate last year while basic service costs grew at twice the rate.

Separately, the report appeared to



THE WASHINGTON POST

undercut the idea that the rapid buying and selling of cable systems since deregulation had led operators to raise rates exorbitantly. Instead, the GAO found that rates for systems changing owners between 1985 and 1989 were about the same as those that remained under the same owner.

The GAO's cable figures largely matched those found by Paul Kagan Associates, an independent research firm, earlier this year. Kagan said the average cost of basic service increased 10.5 percent to \$15.97 in 1989; premium charges were virtually flat at \$10.27 per month; and the average total bill each month grew 10.5 percent to \$25.85.