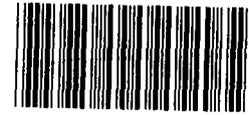


GAO

Testimony



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National Survey of Cable Television
Rates and Services

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

Before the
Subcommittee on Telecommunications
and Finance
Committee on Energy and Commerce
House of Representatives



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our just-released report. This report, one of the most comprehensive studies of its kind to date, was prepared at your request to assist you in evaluating the effect of the Cable Communications Policy Act of 1984. This act deregulated cable rates in most communities as of December 29, 1986. Through a national survey of cable television systems, we compared rates and services offered on December 1, 1986, just prior to deregulation, with those offered on October 31, 1988. Specifically, we collected data on (1) basic cable rates and services, (2) rates for premium movie services, (3) availability of options such as additional cable outlets for second television sets, and (4) overall revenue to cable operators per subscriber.

I would like to briefly summarize the results of our survey. Overall, between December 1986 and October 1988, average monthly rates for the lowest priced basic service increased by 29 percent, while rates for the most popular basic service increased by 26 percent. (See attachment I.) Also, for both the lowest priced and most popular services, we found that rate increases were accompanied by increases in the number of channels offered. I should point out here that because some cable systems--over 23 percent of them in December 1986--offered more than one level or "tier" of basic service, we thought it important to collect information not only on the lowest priced tier, but also on the level of service that affected the greatest number of subscribers, which we refer to as the most popular service.

In contrast with basic service rate increases, we noted slight decreases in rates for premium movie services--with no individual or combination of movie channels decreasing by more than 5 percent.

We also found that, for the most popular basic service, the availability of options increased, but for remote control units and added outlets, there was usually an extra charge over and above the basic service rate.

In addition, we noted that from December 1986 to October 1988 there was, on average, a 14 percent increase in monthly revenue to cable operators per subscriber--a key indicator of cable system revenue patterns.

Before discussing in more detail the results of our survey, I would like to briefly present some background on the cable industry, along with the methodology we used in conducting the survey.

BACKGROUND ON THE CABLE INDUSTRY

Cable television rates, once subject to control at the local or state level for the lowest priced basic service, have been deregulated since December 29, 1986, in most communities. Regulation of the cable television industry had historically involved a mixture of federal, state, and local entities establishing policies, rules, and procedures. However, control of cable rates had its foundation primarily at the state and local levels. The Cable Act prohibited localities from regulating basic cable television rates except where there was no effective competition--meaning that residents of that locality could not receive at least three television stations using their own antennas.

The wide range of reported rate increases since deregulation, as well as the variety of available cable rates and services, has complicated efforts to assess the impact of the Cable Act. Cable television is generally marketed as either basic or premium service. Basic service includes any service offering re-

transmission of local television broadcast signals, but may also include programs available via satellite transmission, such as CNN, ESPN, and C-Span, 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. Premium service generally includes movie channels, such as Cinemax and Showtime, available individually or in combination for an additional fee over and above the charge for basic service.

GAO SURVEY METHODOLOGY

In planning our survey, we had to take into account the variety of cable rates and services in order to design a questionnaire that would accurately capture the full range of changes since deregulation. The questionnaire we developed requested two kinds of information from cable operators. First, we requested information on basic cable service, including rates, channels offered, and number of subscribers for each tier of service. Second, we requested information on rates and availability of options (remote control units, additional outlets, etc.) and premium movie services. While the rates of such services are not at issue since they were never subject to regulation, cable industry representatives have stated that increases in basic rates have frequently been offset somewhat by accompanying reductions for options and premium services.

We sent questionnaires to a random sample nationwide of 1,950 cable systems, stratifying them into five size groupings, the lowest being systems with 1,000 or fewer subscribers, and the highest being systems with over 50,000 subscribers. We selected our sample from the data base of 8,908 cable systems maintained by the publisher of Television and Cable Factbook, a well-known industry reference book. We received 1,451 usable responses, a response rate of 74 percent, which we considered excellent. Because we used a stratified random sample, we can make estimates

for each of the five groupings of cable systems and on a national level.

SURVEY RESULTS

I would like now to discuss the results of our survey. Monthly rates for the lowest priced basic service increased, on average, by 29 percent per subscriber, from \$11.23 to \$14.48 between December 1986 and October 1988. Breaking down this increase reveals that about 62 percent of subscribers incurred rate increases between 10 and 40 percent. However, almost 28 percent of subscribers had increases of over 40 percent. (See attachment II.)

For the most popular basic service, average rates per subscriber increased by 26 percent, from \$11.70 to \$14.77.

Our survey also showed that cable systems increased the number of basic channels offered during the same time period. Subscribers to the lowest priced basic service received additional channels, from an average of nearly 24 channels in December 1986 to about 30 channels in October 1988. Channels available to subscribers of the most popular basic service also increased, on average, from nearly 27 to about 32.

While, as I noted earlier, the Cable Act essentially prohibited local rate regulation after December 29, 1986, our survey showed that 34 percent of the cable systems reported that they were not regulated as of December 1, 1986. Therefore, we compared increases in rates for those systems already deregulated in December 1986 with increases for those systems deregulated with passage of the act. We found little difference. For the most popular basic service, systems that were regulated in 1986 (but not regulated in 1988) showed rate increases of 27 percent between 1986 and 1988--from an average of \$11.58 to \$14.76 per subscriber. Systems that were not regulated in 1986 (and not regulated in 1988)

showed rate increases of 24 percent, from \$12.03 to \$14.90. For the lowest priced basic service, the differences were slightly greater. Rates for systems not regulated as of December 1986 increased 25 percent while systems regulated at that point increased 31 percent. (See attachment III.)

In contrast to basic service rate increases, rates for premium movie services decreased slightly, both individually and for combinations of premium channels. Rates charged by cable systems for three popular premium channels decreased by \$.15 to \$.37 per month for each channel. For example, the greatest decrease in an individual premium channel went from \$10.32 in December 1986 to \$9.95 in October 1988. Average rates per month for combinations of two, three, and four premium channels also decreased, by \$.82, \$1.31, and \$1.67, respectively. For example, the price for the four premium channel combination decreased from \$34.28 in December 1986 to \$32.61 in October 1988.

We also surveyed cable systems about optional services, such as outlets for second television sets and remote control units, to learn whether such services, once offered as an option at extra charge in 1986, were being offered as part of basic service in October 1988. We found little movement in that direction for the most popular basic service, other than an increase in the offering of outlets for second sets.

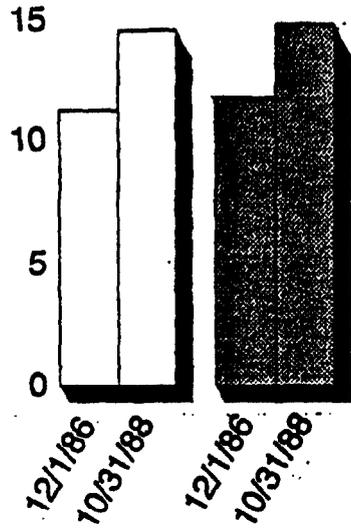
The "bottom line" after sorting out various increases and decreases in basic rates, options, and premium channels is their effect on the cable systems' total revenues. Revenue per subscriber is roughly analogous to the subscriber's monthly cable bill. Our survey showed that monthly average revenue to cable operators per subscriber increased from \$21.58 to \$24.68 between December 1986 and October 1988, an increase of 14 percent. (See attachment IV.)

We noted that despite basic rate increases, overall cable subscriptions have continued to grow during the period of our survey. Total subscriptions increased by 15 percent, while the number of homes accessible to cable grew at a rate of 16 percent. Overall cable system penetration (total subscribers as a percentage of homes accessible to cable) increased from 55 percent to 57 percent. Also, the number of subscribers purchasing premium channels increased by 14 percent, generally equalling the overall growth in cable subscriptions. The proportion of total cable subscribers purchasing one or more premium channels stayed the same, at about 50 percent.

Mr. Chairman, this concludes my statement. We would be pleased to respond to any questions you or Members of the Subcommittee may have.

Increase in Average Monthly Rates for Cable TV

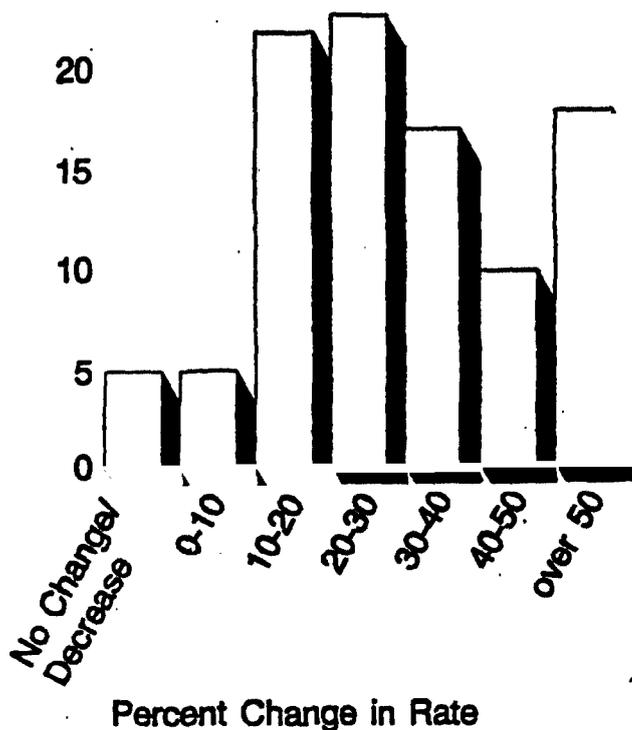
20 Dollars



□ Lowest Priced Basic Service (29% increase)
■ Most Popular Basic Service (26% increase)

Changes in Rates for Lowest Priced Basic Service, 12/1/86 to 10/31/88

25 Percentage of Subscribers



Rate Increases — Systems Regulated/ Not Regulated Prior to Cable Act^a

	Rate as of:		Percent Increase
	12/1/86	10/31/88	
Lowest Priced Basic Service			
Regulated	\$11.06	\$14.49	31
Not Regulated	\$11.66	\$14.56	25
Most Popular Basic Service			
Regulated	\$11.58	\$14.76	27
Not Regulated	\$12.03	\$14.90	24

^aThirty-four percent of cable systems reported they were already not regulated as of December 1, 1986.

Cable Systems' Average Monthly Revenue Per Subscriber

Revenue as of:		
12/1/86	10/31/88	Percent Increase
\$21.58	\$24.68	14
