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Follow-up National Survey of Cable Television  
Rates and Services

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



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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here to discuss the results of GAO's just released "Follow-up National Survey of Cable Television Rates and Services". Last August, I testified on the results of our first study--covering changes in cable rates and services between December 1986 and October 1988. That study showed a 29-percent average increase in cable subscriber's monthly rates for the lowest priced basic service.

As you may recall, a number of questions and issues were raised at last year's hearing, which we have attempted to deal with in our follow-up work. As requested, we've updated our study through 1989, and have collected data from 1984 and 1985--in an effort to further study the effects of the Cable Act. In addition, we sought to determine whether cable rate increases represented one-time adjustments following deregulation, and whether changes in cable system ownership--which, as you know, have been frequent--have affected cable rates. We also analyzed various proposals for amending the Cable Act as well as major options for dealing with cable industry market power.

#### RESULTS IN BRIEF

Let me briefly summarize the results of our study. As I mentioned, a key concern last year was whether cable rates would show further moderation in 1989. We found that basic rates have continued to increase at a rather significant rate. During 1989, cable subscriber's monthly rates for both the lowest priced and most popular basic services increased, on average, by 10 percent, higher than the rate of inflation for the year, which was 4 to 5 percent. I should point out here that since some cable systems offer more than one "tier" of basic service, we again collected 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. These rate increases were accompanied by small increases--one and two channels, respectively--in the average number of basic channels offered. In addition, overall revenue to cable operators per subscriber, which represents the subscriber's total monthly bill for all cable services increased, on average, by 5 percent, from \$25.00 to \$26.36.

Regarding systems changing ownership between 1985 and 1989 we did not find any statistically significant pattern of higher basic rate increases than those imposed by cable systems that remained under the same ownership.

Looking at it more broadly--in the 3 years since deregulation, we found average increases of 39 and 43 percent, respectively, for the most popular and 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 accessible to cable) increased from 56 to 58 percent. The lack of close substitutes to which consumers can switch 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 we are reporting are, of course, likely to fuel even more debate over regulating the cable industry. For many, promoting more competition is a preferred policy option 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. In our report we discuss some of the major legislative and regulatory proposals being considered, as well as various policy options to deal with cable industry market power--however we have not taken a position on what the best solution is at this time. We

believe that this is a policy decision for the Congress. Many other hearings you have held, Mr. Chairman, have explored these various policy options.

Before going into more detail, I want to briefly talk about the methodology we used in conducting our study.

### GAO STUDY METHODOLOGY

We developed a questionnaire similar to the one we used in our first study. However, recognizing that FCC had a legislative mandate for a policy-related study requiring similar information, with the Chairman's concurrence, we worked closely with FCC in developing a questionnaire that would satisfy both our data needs, thus avoiding duplication and an undue reporting burden on the cable industry. We have furnished the resulting questionnaire data to FCC, but they haven't seen or had any input into our report.

Our questionnaire asked for a wide range of rate and subscription data, including data on

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

As in our first study, we obtained cable system names and addresses from a data base maintained by the publisher of Television and Cable Factbook, a well-known industry reference book. We sent questionnaires out to a random sample of 1,971 cable systems nationwide, and received responses from 1,530 systems, a response rate of almost 78 percent--higher than last year's 74 percent response rate. An analysis of these nonrespondents indicates several reasons for their not responding, including the fact that 3 percent of our questionnaires 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.

#### DETAILED STUDY RESULTS

I would like to now discuss more details on the results of our study. During 1989, cable subscriber's monthly rates for the lowest priced basic service increased, on average, by 10 percent, from \$14.50 to \$15.95. Rates for the most popular basic service also showed a 10-percent increase. 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. I should add that about 20 percent of the subscribers to either the most popular or lowest price service experienced price increases in these 3 years greater than 60 percent. Also, if one looked at the '84-'89 period, on average, monthly rates for lowest and most popular service increased over 65 percent (see attachment).

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 most popular services. Overall, since deregulation, basic channels available to subscribers to the lowest priced basic service increased, on average, from 24 to 31 channels. Channels available for subscribers to the most popular basic service also increased, on average, from 27 to 34.

Interestingly, we found that 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 the rates of those systems previously not regulated.

We found that 53 percent of cable systems had changed ownership since 1985. As you know, 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. Our study, 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, we found no statistically significant pattern of higher increases in the systems changing ownership.

We also collected data on other cable operations--options, premium services, revenue per subscriber, subscriptions, and cable system penetration, and here's what we found:

- The availability of options and charges for premium services showed little change compared with the 1988 data in our previous report.
- 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 accessible to cable grew by 14 percent. Cable system penetration (total subscribers as a percentage of homes accessible to cable) increased slightly, from 56 to 58 percent.

### POLICY IMPLICATIONS

What are the policy implications of our study results? Because the nature of basic cable service was 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 which 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 of our report discusses the major legislative and regulatory proposals currently being considered. Chapter 4 discusses the pros and cons of several policy options to deal with cable industry market power, including

- redefining "effective competition," that is, broadening the definition of which cable systems are subject to

regulation. FCC is currently reassessing its three-signal definition, and the key question is whether the definition should be broadened to include the presence of alternative multichannel video providers (MMDS, DBS, or second cable systems). If so, the majority of cable systems would become subject to regulation.

- assigning FCC a larger regulatory role. Instead of returning rate approval authority to thousands of localities, one option would be for FCC to set some national criteria for allowable rate increases.
- returning control to local communities. In this regard, both FTC and Justice support greater local control over cable rates. They questioned the need for a uniform national cable policy, given different regulatory needs of the localities.

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In summary, we have not taken a position on these various policy options, nor have we made any recommendations in this report. I might note, that while competitive options would seem the ideal solution, these tend to stress the emergence of new, alternative technologies. However, 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 removal of legal restrictions to entry, some form of interim rate regulation may be desirable. Mr. Chairman, this concludes my statement. We would be pleased to respond to any questions you or Members of the Subcommittee may have.



Average Monthly Basic Service Charge per SubscriberAverage basic service charge  
per subscriber for:

<u>Date</u>	<u>Most popular service</u>	<u>Lowest priced service</u>
12/31/84	<b>\$9.84</b> (+.10) N=3033 (+196)	<b>\$9.50</b> (+.09) N=2968 (+195)
12/31/85	<b>10.60</b> (+.10) N=3385 (+207)	<b>10.19</b> (+.10) N=3335 (+206)
11/30/86	<b>11.71</b> (+.10) N=4002 (+218)	<b>11.14</b> (+.11) N=3995 (+218)
12/31/87	<b>13.47</b> (+.10) N=4706 (+227)	<b>13.01</b> (+.10) N=4701 (+227)
12/31/88	<b>14.91</b> (+.11) N=5405 (+227)	<b>14.50</b> (+.11) N=5380 (+227)
12/31/89	<b>16.33</b> (+.10) N=6289 (+215)	<b>15.95</b> (+.10) N=6284 (+215)
<b>Percent increase</b> <b>1988-89</b>	<b>9.5</b> (+1.4)	<b>10.0</b> (+1.5)
<b>1986-89</b>	<b>39.4</b> (+1.9)	<b>43.2</b> (+2.1)
<b>1984-89</b>	<b>66.0</b> (+2.0)	<b>68.0</b> (+2.2)

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.