NEWS

Federal Communications Commission
445 12th Street, S.W.
Washington, D. C. 20554

News media Information 202 / 418-0500
Fax-On-Demand 202 / 418-2830
TY 202/418-2555
Internet: http://www.fcc.gov
ftp.fcc.gov

FOR IMMEDIATE RELEASE
January 8, 2001

NEWS MEDIA CONTACT
Michelle Russo (202) 418-2358

FCC ADOPTS SEVENTH ANNUAL REPORT ON COMPETITION IN VIDEO MARKETS
(CS Docket No. 00-132)

Washington, DC – The Federal Communications Commission (FCC) has adopted its seventh annual report on competition in markets for the delivery of video programming. This report will be submitted to Congress in accordance with Section 628(g) of the Communications Act. The report provides updated information on the status of competition in markets for the delivery of video programming, discusses changes that have occurred in the competitive environment over the last year, and describes barriers to competition that continue to exist.

The report finds that competitive alternatives and consumer choices continue to develop. Cable television still is the dominant technology for the delivery of video programming to consumers, although its market share continues to decline. As of June 2000, 80 percent of all subscribers to multichannel video program distributor (MVPD) services received their programming from a franchised cable operator, compared to 82 percent a year earlier.

Since the *1999 Report*, the number of cable subscribers continued to grow, reaching 67.7 million as of June 2000, up about 1.5 percent from the 66.7 million cable subscribers in June 1999. The total number of noncable MVPD subscribers grew from 14.2 million as of June 1999 to 16.7 million as of June 2000, an increase of almost 18 percent. The growth of noncable MVPD subscribers continues to be primarily attributable to the growth of direct broadcast satellite (DBS) service. DBS appears to attract former cable subscribers and consumers not previously subscribing to an MVPD. Between June 1999 and June 2000, the number of DBS subscribers grew from 10.1 million households to almost 13 million households, which is nearly three times the cable subscriber growth rate. DBS subscribers now represent 15.4 percent of all MVPD subscribers.

During the period under review, cable rates rose faster than inflation. According to the Bureau of Labor Statistics, between June 1999 and June 2000, cable prices rose 4.8 percent compared to a 3.2 percent increase in the Consumer Price Index ("CPI"). Concurrently with these rate increases, capital expenditures for the upgrading of cable facilities increased (up 89.3 percent over 1998), the number of video and non-video services offered increased, and programming costs increased (license fees increased by 12.2 percent and programming expenses increased by 16.2 percent). The FCC also noted that cable operators' pricing decisions may be affected where direct competition exists.

The 2000 Report details the status of competitors in markets for the delivery of video programming including: cable systems, direct-to-home satellite service (DBS and HSD), wireless cable systems, SMATV systems, broadcast television, local exchange carrier (LEC) entry, open video systems, Internet video, home video sales and rentals, and electric utilities.

-more-

The report also examines market structure and competition by evaluating horizontal concentration in the MVPD marketplace and vertical integration between cable television systems and programming services; discussing competitors serving multiple dwelling unit (MDU) buildings; and addressing programming issues and technical advances.

A list of the key findings of the report is attached.

Action by the Commission, January 2, 2001, by Report (FCC 01-1). Chairman Kennard, Commissioners Ness, Powell and Tristani, with Commissioner Furchtgott-Roth dissenting and issuing a statement.

-- FCC--

Cable Services Bureau contact: Marcia Glauberman at (202) 418-7046.
TTY: (202) 418-7172

KEY FINDINGS OF THE 2000 REPORT ON VIDEO COMPETITION:

Industry Growth:

In the *2000 Report*, the FCC examines the status of competition in the market for the delivery of video programming, discuss changes that have occurred in the competitive environment over the last year, and describe barriers to competition that continue to exist. Overall, the Commission finds that competitive alternatives and consumer choices continue to develop. Cable television still is the dominant technology for the delivery of video programming to consumers in the MVPD marketplace, although its market share continues to decline. As of June 2000, 80 percent all MVPD subscribers received their video programming from a franchised cable operator, compared to 82 percent a year earlier.

The total number of subscribers to both cable and noncable MVPDs continues to increase. A total of 84.4 million households subscribe to multichannel video programming services as of June 2000, up 4.4 percent over the 80.9 million households subscribing to MVPDs in June 1999. This subscriber growth accompanied a 2.4 percentage point increase in MVPDs' penetration of television households to 83.8 percent as of June 2000.

Since the *1999 Report*, the number of cable subscribers continued to grow, reaching 67.7 million as of June 2000, up about 1.5 percent from the 66.7 million cable subscribers in June 1999. The total number of noncable MVPD subscribers grew from 14.2 million as of June 1999 to 16.7 million as of June 2000, an increase of almost 18 percent.

The growth of noncable MVPD subscribers continues to be primarily attributable to the growth of DBS. DBS appears to attract former cable subscribers and consumers not previously subscribing to an MVPD. Between June 1999 and June 2000, the number of DBS subscribers grew from 10.1 million households to almost 13 million households, which is nearly three times the cable subscriber growth rate. DBS subscribers now represent 15.4 percent of all MVPD subscribers. There also have been a number of additional cable overbuilds in the last year. While the Commission has certified new open video systems, some OVS operators have converted portions of their systems to franchised cable operations. Over the last year, the number of subscribers to and market shares of HSD and MMDS subscribers continued to decline. However, the number of SMATV subscribers has increased slightly this year.

Cable Rates:

During the period under review, cable rates rose faster than inflation. According to the Bureau of Labor Statistics, between June 1999 and June 2000, cable prices rose 4.8 percent compared to a 3.2 percent increase in the Consumer Price Index ("CPI"), which measures general price changes. Concurrently with these rate increases, capital expenditures for the upgrading of cable facilities increased (up 89.3 percent over 1998), the number of video and non-video services offered increased, and programming costs increased (license fees increased by 12.2 percent and programming expenses increased by 16.2 percent). We also note that cable operators' pricing decisions may be affected where direct competition exists. Available evidence indicates that when an incumbent cable operator faces "effective competition," as defined by the Communications Act, it responds in a variety of ways, including lowering prices or adding channels without changing the monthly rate, as well as improving customer service and adding new services such as interactive programming.

Convergence of Cable and Television Service:

The Telecommunications Act of 1996 ("1996 Act") removed barriers to LEC entry into the video marketplace in order to facilitate competition between incumbent cable operators and telephone companies. At the time of the 1996 Act, it was expected that LECs would compete in the video delivery market and that cable operators would provide local telephone exchange service. We previously reported that there had been an increase in the amount of video programming provided to consumers by telephone companies, although the expected technological convergence that would permit use of telephone facilities for video service had not yet occurred. This year, we find that the rate of entry by LECs appears to be slowing even by the most aggressive telephone companies, and several LECs have reduced or eliminated their MVPD efforts.

Most incumbent local telephone exchange carriers are seeking to sell their MVPD facilities (e.g., Ameritech and SNET's cable assets now owned by SBC, GTE's assets now owned by Verizon), preferring to market DBS service to their customers. BellSouth appeared to be the exception to this trend, offering MMDS service in an area covering 3.5 million homes and acquiring cable franchises in 21 areas with the potential to pass 1.4 million homes. In December 2000, however, BellSouth announced that it will phase out its wireless cable service and transition existing subscribers to EchoStar's DBS service, although it will continue to operate wireline cable systems.

While the 1996 Act created the OVS framework as a means of entry into the video marketplace by LECs, few telephone companies have sought certification. Alternatively, only a limited number of cable operators have begun to offer telephone service and their strategies for deployment remain varied. MSOs, such as Cox and AT&T, continue to deploy traditional circuit-switched telephone service. Others, like Cablevision and Comcast, are offering cable–delivered telephony on a limited basis, waiting until Internet Protocol ("IP") technology becomes available before accelerating their rollout of telephone service, or continuing to test such service.

Broadband High-Speed Internet Service

The most significant convergence of service offerings continues to be the pairing of Internet service with other service offerings. There is evidence that a wide variety of companies throughout the communications industries are attempting to become providers of multiple services, including data access. Cable operators continue to expand the broadband infrastructure that permits them to offer high-speed Internet access. Currently, the most popular way to access the Internet over cable is through the use of a cable modem and personal computer. Virtually all the major MSOs offer Internet access via cable modems in portions of their nationwide service areas. A small portion of cable Internet access is delivered through a television receiver rather than a personal computer. Many cable operators also are planning to integrate telephony and high-speed data access.

Like cable, the DBS industry is developing ways to bring advanced services to their customers. For example, DirecTV currently offers a satellite-delivered high-speed Internet access service with a telephone return path called DirecPC. EchoStar now offers its subscribers an interactive program guide and weather service from OpenTV, a company that produces interactive television technology, and will soon launch Wink-enhanced TV, which allows viewers to use their remote controls to access program-related information, request product samples or free coupons, or purchase merchandise directly from television. Many SMATV operators offer local and long distance telephone service and Internet access along with video service.

In addition, digital technology makes it possible for MMDS operators, who provide video service in only limited areas, to offer two-way services, such as high-speed Internet service and telephony. Sprint and MCI WorldCom have acquired most of the larger MMDS operators with the intent to use the acquired frequencies to provide two-way, non-video communications services.

Promotion of Entry and Competition:

Noncable MVPDs continue to report that regulatory and other barriers to entry limit their ability to compete with incumbent cable operators and to thereby provide consumers with additional choices. Noncable MVPDs also continue to experience some difficulties in obtaining programming from both vertically integrated cable programmers and unaffiliated programmers who continue to make exclusive agreements with cable operators. In multiple dwelling units ("MDUs"), potential entry may be discouraged or limited because an incumbent video programming distributor has a long-term and/or exclusive contract. Other issues also remain with respect to how, and under what circumstances, existing inside wiring in MDUs may be made available to alternative video service providers.

Consumers historically reported that their inability to receive local signals from DBS operators negatively affected their decision as to whether to subscribe to DBS. This year's significant increase in DBS subscribership has been attributed, at least in part, to the authority granted to DBS providers to distribute local broadcast television stations in their local markets by the Satellite Home Viewer Improvement Act of 1999 ("SHVIA") enacted on November 29, 1999. Under SHVIA, DBS operators can offer a programming package more comparable to and competitive with the services offered by cable operators. DirecTV now offers a package of local ABC, CBS, NBC, and Fox affiliates along with a national PBS feed in 38 markets for $5.99 a month. EchoStar offers similar service in 34 markets. Moreover, in the last year, as required by SHVIA, the Commission has adopted rules for satellite companies with regard to mandatory carriage of broadcast signals, retransmission consent, and program exclusivity that closely parallel the requirements for cable service.

Distribution Mechanism Findings:

FCC findings as to particular distribution mechanisms operating in markets for the delivery of video programming include the following:

- **Cable Systems:** Since the *1999 Report*, the cable television industry has continued to grow in terms of subscribership (up to 67.7 million subscribers as of June 2000, a 1.5 percent increase from June 1999), revenues (an approximate 13 percent increase between year end 1998 and year end 1999), audience ratings (non-premium cable viewership rose from a 42 share at the end of June 1999 to almost a 46 share at the end of June 2000), and expenditures on programming (an approximate 12 percent increase in program license fees paid by cable system operators). However, the number of national satellite-delivered video programming services, which had been increasing steadily in recent years, decreased by two networks, from 283 to 281, between June 1999 and June 2000.

- The cable industry remains healthy financially, which has enabled it to invest in improved facilities, either through upgrades or rebuilding. As a result, there have been increases in channel capacity, the deployment of digital transmissions that provide better picture quality than can be offered through analog service, and non-video services, such as Internet access. Cable operators also offer telephony, although the use of integrated facilities remains primarily experimental with limited exceptions.

- **Direct-to-Home ("DTH") Satellite Service (DBS and HSD):** Video service is available from high power DBS satellites that transmit signals to small DBS dish antennas installed at subscribers' premises, and from low power satellites requiring larger satellite dish antennas. As reported last year, DirecTV acquired medium power satellite provider PrimeStar. Following a transition period for PrimeStar's subscribers to convert to DirecTV's service, PrimeStar ceased to exist on September 30, 1999. DBS has over ten million subscribers, an increase of approximately 29 percent since the *1999 Report*. Between June 1999 and June 2000, the number of HSD subscribers, measured as the number of HSD users that actually purchase programming packages, declined from 1.8 million to 1.5 million, a decrease of 17 percent, that is likely due to subscribers switching to DBS. DirecTV and EchoStar are among the ten largest providers of multichannel video programming service. In June 2000, DBS represented a 15.4 percent share of the national MVPD market and HSD represented another 1.8 percent of that market.

- **Wireless Cable Systems:** Currently, the wireless cable industry ("MMDS") provides competition to the cable industry in only limited areas. MMDS subscribership fell from 821,000 subscribers to 700,000 subscribers between June 1999 and June 2000, a decrease of 14.7 percent. With the advent of digital MMDS and the Commission's authorization of two-way MMDS service, it appears that MMDS spectrum will be used to provide video services in limited areas, and that most MMDS spectrum will eventually be used to provide high-speed data services. Wireless cable represented a 0.8 percent share of the national MVPD market in June 2000.

- **SMATV Systems:** SMATV systems use some of the same technology as cable systems, but do not use public rights-of-way, and focus principally on serving subscribers living in multiple dwelling units ("MDUs"). SMATV subscribership has increased approximately 3.5 percent since the last report, with the industry representing approximately a 1.8 percent share of the national MVPD subscribership as of June 2000.

- **Broadcast Television:** Broadcast networks and stations are competitors to MVPDs in the advertising and program acquisition markets. They supply video programming directly to the approximately 20 percent of television households that are not MVPD subscribers. Additionally, broadcast networks and stations are suppliers of content for distribution by MVPDs. Since the *1999 Report*, the broadcast industry has continued to grow in the number of operating stations (from 1599 in 1999 to 1663 in 2000) and in advertising revenues ($36.6 billion in 1999, a 5.7 percent increase over 1998). While audience levels continue to decline, the four major television networks still account for a 50 percent share of prime time viewing for all television households. Broadcast television stations continue to deploy digital television ("DTV") service. There are 173 television stations on the air broadcasting DTV signals, and digital simulcast of analog programming continues to increase.

- **LEC Entry:** The 1996 Act expanded opportunities for LECs to enter the market for the delivery of video programming. In the *1999 Report*, we noted that it appeared that the rate of entry into the video marketplace by LECs might be slowing, even by the most aggressive LECs, and that several LECs had reduced or eliminated their MVPD efforts. This trend continued or accelerated this year. Most incumbent local exchange carriers are seeking to sell their MVPD facilities, preferring instead to market DBS service to their customers. One notable exception is BellSouth, which continues to pursue a number of methods for providing MVPD service. BellSouth has been the largest LEC investor in MMDS licenses, with its service area covering approximately 3.5 million homes. However, in December 2000, BellSouth announced that it was phasing out this service and transitioning existing subscribers to EchoStar's DBS service. It has acquired 21 cable franchises in its telephone service area with the potential to pass 1.4 millions, provides service in 12 franchise areas, and is negotiating for additional franchises. Previously, Ameritech was the most significant LEC provider of in-region cable service, but recent reports indicate that SBC, its current owner, seeks to sell these cable assets. Verizon, which acquired GTE's 10 competitive and one non-competitive cable franchises, is seeking to sell those cable assets. SNET, now also owned by SBC, currently offers service to 30,000 homes in 29 Connecticut localities, but is seeking permission from the state to discontinue this service. U S West continues to offer video, high-speed Internet access, and telephone service over existing copper lines using very high speed digital subscriber line ("VSDL") in Omaha and Phoenix.

- **Open Video Systems:** In the 1996 Act, Congress established a new framework for the delivery of video programming -- the open video system ("OVS"). Under these rules, a LEC or other entrant may provide video programming to subscribers, although the OVS operator must provide non-discriminatory access to unaffiliated programmers on a portion of its channel capacity. The Commission has certified 25 OVS operators to serve 50 areas. RCN owns the only operating open video systems and currently serves areas surrounding Boston, New York City, Washington, D.C, and San Francisco. In several areas for which it holds OVS certifications, or portions of these areas, RCN has converted its systems to franchised cable systems. The number of OVS subscribers has remained constant over the last year at approximately 60,000 subscribers. OVS subscribers now represent slightly less than 0.1 percent of all MVPD subscribers.

- **Internet Video:** Currently, 56 percent of the U.S. population has Internet access. Real-time and downloadable video accessible over the Internet continues to become more widely available and the amount of content also is increasing. Despite the evidence of increased interest in Internet video deployment and use, the medium is still not seen as a direct competitor to traditional video services. Television quality Internet video requires a high-speed broadband connection, which most current broadband providers cannot guarantee. Also, deployment of broadband is far from ubiquitous. However, Internet users continue to download and use software for accessing Internet video and Web sites dedicated to streaming video continue to proliferate.

- **Home Video Sales and Rentals:** The home video marketplace includes the sale and rental of video cassettes, DVDs, and laser discs. As in past reports, we consider home video sales and rentals part of the video marketplace because they provide services similar to the premium and pay-per-view offerings of MVPDs. Almost 86 percent of all U.S. households have at least one VCR. The number of homes with DVD players has grown rapidly since their introduction into the market, with the number of homes with DVD players expected to reach between 10 and 12 million by the end of 2000. The newest home video technology, the personal video recorder ("PVR"), was introduced in 1999. A PVR is a device connected to a television set that uses a hard disk drive, software, and other technology to digitally record and access programming. In the last year, TiVo and ReplayTV, the two PVR companies, have joined with MVPDs, equipment manufacturers, advertisers, and programmers to incorporate PVR technology into set-top boxes and develop content specifically for PVRs.

- **Electric Utilities:** Since the *1999 Report*, several electric and gas utilities have announced, commenced, or moved forward with ventures involving multichannel video programming distribution. Utilities are not yet major competitors in the telecommunications or cable markets, but they generally possess characteristics, such as ownership of fiber optic networks and access to public rights-of-way, that could potentially help them become competitively significant. Moreover, deregulation of utilities, accompanied by the advent of competition, is prompting more utilities to diversify and find new revenue streams. Starpower, a joint venture between RCN and PEPCO, continues to expand the area where it offers voice, video, and high-speed Internet access in the Washington, D.C., area. Last year, we reported that Seren, a wholly-owned subsidiary of Minneapolis-based Northern States Power, offered cable and high-speed data access as an overbuilder in several Minnesota communities. It also offers service in the San Francisco Bay area and plans to expand its service area. Siegecom, funded by Blackstone Capital and a joint venture of Southern Indiana Gas and Electric and Utilicom, is offering bundled voice, video and data access services in Evansville and Newburg, Indiana, and has approached other communities about obtaining franchises. Digital Union, a subsidiary of the local utility in Austin, Texas, plans to overbuild the incumbent cable operator. Braintree, Massachusetts, granted a franchise to the municipal utility and plans to begin cable service by the end of 2000.

Additional Findings:

Consolidations within the cable industry continue as cable operators acquire and trade systems. The ten largest operators now serve close to 90 percent of all U.S. cable subscribers. However, in terms of one traditional economic measure, national concentration among the top MVPDs has increased since last year, although it remains below the levels reported in earlier years. DBS operators DirecTV and EchoStar rank among the ten largest MVPDs in terms of nationwide subscribership along with eight cable multiple system operators ("MSOs"). As a result of acquisitions and trades, cable MSOs have continued to increase the extent to which their systems form regional clusters. Currently, 44 million of the nation's cable subscribers are served by systems that are included in regional clusters. By clustering their systems, cable operators may be able to achieve efficiencies that facilitate the provision of cable and other services, such as telephony.

The number of satellite-delivered programming networks has decreased by two from 283 in 1999 to 281 in 2000. Vertical integration of national programming services between cable operators and programmers, measured in terms of the total number of services in operation, declined from last year's total of 37 percent to 35 percent this year, continuing a five year trend. In 2000, one or more of the top five cable MSOs held an ownership interest in each of 99 vertically integrated national programming services. Sports programming warrants special attention because of its widespread appeal and strategic significance for MVPDs. The *2000 Report* identifies 75 regional networks, 27 of which are sports channels, many owned at least in part by MSOs. There are also 30 regional and local news networks that compete with local broadcast stations and national cable networks (e.g., CNN).

The program access rules adopted pursuant to the 1992 Cable Act were designed to ensure that other MVPDs can have access to vertically-integrated satellite delivered programming on non-discriminatory terms. We recognize that the terrestrial distribution of programming, including in particular regional sports programming, could eventually have a substantial impact on the ability of alternative MVPDs to compete in the video marketplace. We will continue to monitor this issue and its impact on the competitive marketplace.

Cable operators and other MVPDs continue to develop and deploy advanced technologies, especially digital compression techniques, to increase the capacities and to enhance the capabilities of their transmission platforms. These technologies allow MVPDs to deliver additional video options and other services (e.g., data access, telephony, and interactive services) to their subscribers. To access these wide ranging services, consumers use "navigation devices." Pursuant to section 629 of the Communications Act, which is intended to ensure commercial availability of these navigation devices, the Commission adopted rules that required MVPDs to unbundle security from other functions of digital set-top boxes by July 1, 2000. The cable industry reports that cable operators have met this deadline to have digital separate security modules available for consumers. Interface requirements and a certification process for the high-speed cable modems needed to access data services have also been developed. Cable modems are now for sale in selected markets. We expect these developments to increase competition in the market for equipment used by subscribers. In addition, in the last year, interactive television ("ITV") services are beginning to be offered through cable, satellite, and terrestrial technologies. ITV provides or has the potential to provide a wide range of services, including video on demand ("VOD"), e-mail, TV-based commerce, Internet access, and program-related content, using digital set-top boxes and other devices that interface with television receivers (e.g., WebTV).

--FCC--