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See *MCI v. FCC*, 515 F.2d 385 (D.C. Cir. 1974).

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FCC Media Bureau Report Finds Substantial Consumer Benefits in A La Carte Model of Delivering Video Programming

Washington, DC – The Media Bureau of the Federal Communications Commission (FCC) today issued a Further Report on the Packaging and Sale of Video Programming Services to the Public (the “Further Report”) on the issue of an “a la carte” model for delivery of video services. The Further Report finds consumers could be better off under a la carte and explores several a la carte options that could provide substantial benefits to subscribers by increasing their choices in purchasing programming.

The Further Report reexamines the conclusions and underlying assumptions of the earlier Media Bureau report on a la carte submitted to Congress in November 2004 (“2004 Report”). In particular, the Further Report describes a number of errors in the Booz Allen Hamilton (“Booz Allen”) Study that the Media Bureau relied upon to support the conclusion of the earlier report that a la carte is not economical. The Further Report finds that the 2004 report also relied upon unrealistic assumptions and presented biased analysis in concluding that a la carte “would not produce the desired result of lower MVPD rates for most pay-television households.”

The Further Report identifies mistaken calculations in the Booz Allen Study, which was originally submitted by the cable industry for Commission consideration. Booz Allen itself acknowledges the errors, which other economists also have confirmed. The Further Report explains that the Booz Allen Study failed to net out the cost of broadcast stations when calculating the average cost per cable channel under a la carte. As a result, the Booz Allen Study overstated the average price per cable channel by more than 50 percent.

The Booz Allen Study significantly underestimated the number of programming channels that a subscriber could enjoy under a la carte while still achieving savings compared to the subscriber’s current multichannel video programming distributor (“MVPD”) fees. Indeed, correcting for this mathematical error, consumers’ bills decreased by anywhere from 3 to 13 percent in three out of the four scenarios considered in the Booz Allen Study.

In addition, the Further Report notes that, through the use of questionable assumptions, the Booz Allen Study may have further overestimated the costs of a la carte. The Booz Allen Study (accepted in the Media Bureau’s 2004 report) assumed that a shift to a la carte would cause consumers to watch nearly 25 percent less television, or over two fewer hours of television per day. The Further Report finds that there is no reason to believe that viewers would watch

less video programming than they do today simply because they could choose the channels they find most interesting.

Finally, the 2004 report fails to mention that the Booz Allen Study shows that, even with the math error noted above, if a la carte were only implemented on digital cable systems with appropriate set top boxes in place, then a la carte could result in a 1.97 percent decrease in consumers' bills.

The report can be found online at www.fcc.gov/mb.

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FACT SHEET

- The Media Bureau's 2004 report relied upon a study conducted by Booz Allen Hamilton ("Booz Allen") in concluding that a la carte is not economical. That study contains mathematical errors. Booz Allen has acknowledged these errors, which other economists also have confirmed.
- The Booz Allen Study failed to net out the cost of broadcast stations when calculating the average cost per cable channel under a la carte. As a result, the Booz Allen Study overstated the average price per cable channel by more than 50 percent, and erroneously concluded that, under a la carte, consumers that receive at least nine cable networks would likely face an increase in their monthly bills.
- The corrected calculations show that a subscriber could receive as many as 20 channels, including six broadcast signals, without seeing an increase in his or her monthly bill. This is more than the 17 channels that the average television household watches. The corrected calculations also show that, in three of the four scenarios considered in the Booz Allen Study, consumers' bills decrease by anywhere from 3 to 13 percent.
- The Booz Allen Study assumes, without any support, that a shift to a la carte pricing would cause consumers to watch nearly 25 percent less television, or over two fewer hours of television per day. There is no reason to believe that viewers would watch less video programming than they do today if provided an a la carte option.
- The 2004 report fails to mention that the Booz Allen Study shows that, even with the math error noted above, if a la carte were only implemented on digital cable systems with appropriate set top boxes in place, then a la carte could result in a 1.97 percent decrease in consumers' bills.
- Similarly, the examples presented in the Economic Appendix of the 2004 report focus on cases in which a la carte would be harmful to consumers and do not discuss equally plausible examples in which a la carte would be beneficial to consumers.
- The Booz Allen Study does not consistently recognize differences among networks and network segments. Booz Allen assumed that under a la carte, consumers would be three times as likely to purchase programming in segments such as "general entertainment and sports" than in segments such as "emerging niche" and "emerging mass." However, when Booz Allen determined how many channels a consumer could purchase, it assumed that all channels cost the same amount.
- The current industry practice of bundling programming services may drive up retail prices, making video programming less affordable and keeping some consumers from subscribing to multichannel video programming distributor services.

- For many popular networks, advertising and subscription fees might rise as viewers shift to those programming options, even as consumers who opt to watch only those channels enjoy significant savings on their MVPD bills.
- Some type of a la carte option could prove better than today's bundling practices in fostering diverse programming responsive to consumer demand.
- A la carte could make it easier for programming networks valued by a minority of viewers to enter the marketplace.
- If consumers were able to express their interests through subscriptions, advertisers and MVPDs might find it easier to judge the value of smaller networks.