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The Honorable Edward Markey
Chairman
Subcommittee on Telecommunications
& the Internet
United States House of Representatives
Washington, DC 20515

The Honorable Cliff Stearns
Ranking Member
Subcommittee on Telecommunications
& the Internet
United States House of Representatives
Washington, DC 20515

Dear Chairman Markey and Ranking Member Stearns:

In testimony before your Subcommittee on Wednesday, FCC Chairman Martin sought to justify his repeated and controversial efforts to impose numerous burdensome regulations on the cable industry by claiming cable prices have risen by nearly 100 percent over the last ten years. By omitting important information, his continued use of this data paints a picture that is both deceptive and false. Your Subcommittee deserves, and should expect, the leader of any expert agency to provide you with accurate and complete information.

First, one would expect that a credible pricing analysis would include, at a minimum, pricing histories of competing providers. It is a matter of public record that satellite and phone companies (which together account for more than one in three multichannel video subscribers in the U.S.) offer comparably-priced video packages; in fact phone company competitors are raising prices on their video services at a higher rate than are cable companies. Indeed, Verizon recently raised rates 11.6% on the video programming component alone, which followed a 7.6% increase in November 2006. But Chairman Martin never refers to these price increases by our competitors, and certainly doesn't suggest that they are in any way unreasonable. This seems puzzling to say the very least.

Second, any analysis that fails to account for the qualitatively different nature of the video package in 2005, as compared to that in 1995, is crudely incomplete. Indeed, it would be an understatement to say that the 1995-2005 comparison is a classic “apples to oranges” comparison. For example, in 1995, all cable subscribers were analog subscribers and received an average of 45 channels. Now, the majority of our subscribers are digital. These customers receive hundreds of channels, including an array of high-definition channels that typically include most of the broadcast networks and many cable networks. Digital subscribers also receive video-on-demand services, with hundreds if not thousands of shows, movies and interactive services not even contemplated in 1995. In addition, even cable's analog

subscribers now receive an average of 75 channels. These are not small changes; they represent a sea-change in the video offerings available to cable customers and a fundamentally different value proposition for most consumers. Chairman Martin's public comments on this subject utterly ignore these basic realities.

Third, as other FCC Commissioners have pointed out, the FCC's old methodology for collecting pricing data (on which Chairman Martin is relying) is itself widely recognized as flawed. Cable operators had been required to supply data based on "rate cards," which, in most instances, do not reflect discounts or bundling. Initially, cable companies were required to supply pricing data on analog packages only; today most of our customers are digital subscribers. Previous FCC surveys ignored the obvious consumer benefits of discounted phone, high speed Internet, and video services in bundled offerings.

And, for an agency that should be at the cutting edge of data collection and analysis relating to voice, video, and Internet services, the FCC still has not updated its basic data-gathering efforts to measure the consumer value of wildly popular new services such as high-definition, video-on-demand, digital video recorders, or sophisticated program guides. It is disappointing that local television advertisements of cable operators and our competitors provide more up-to-date information than data collected by the FCC. Chairman Martin has not only failed to modernize the basic data-gathering efforts at the FCC in this respect, but has failed to publicly acknowledge that he is relying on outdated and discredited data.

Fourth, Chairman Martin has used flawed data in ways that depart from ordinary FCC practice in order to support pre-determined conclusions. For example, the FCC historically (and Chairman Martin currently) presents data on the wireless industry's pricing in terms of the "price-per-minute-of-use." And, until recently, the FCC typically collected and reported similar measures for cable video services – "price-per-channel" data – a metric widely acknowledged as a more precise index of consumer value. However, after it became clear that this measurement showed a decline in the real "price-per-channel," Chairman Martin ordered the Media Bureau to suppress this information from the public and Congress.

If the FCC were to be consistent across industries, as it should be, it would measure consumer value with a price-per-viewing-hour metric. Price-per-viewing-hour is more accurate as it incorporates changes in quality and quantity in evaluating the service – much like price-per-minute calculations do for voice services. For example, while a customer's wireless bill has undoubtedly increased in recent years, a typical customer's usage has also increased, as has the value of that service to most consumers. Similarly, consumers are watching far more cable programming and using many more services than in previous years, as tens of billions of dollars of investment have yielded better and more popular programming. The result? As Bernstein Research concluded recently, "On an inflation-and-services-adjusted basis, *the cost per hour viewed has fallen 7% annually over the last 13 years. Despite the nominal price increases, on a total viewing basis, consumers are getting a vastly better deal from their cable*

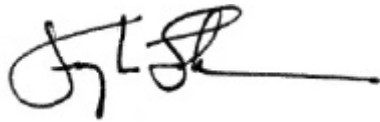
(or satellite) bill”¹ The important issue is the overall value proposition for consumers. The reduction in price-per-viewing-hour disproves Chairman Martin's shopworn assertion that consumers are being forced to pay more for programming they don't watch.

It is true that nominal prices of video services have increased over the last ten years, though more slowly for cable in recent years. But I believe the evidence strongly suggests that the value to consumers of all cable's offerings has risen even more. For example, one clear success in recent years is that the cable industry is providing the first meaningful voice competition to the phone companies, with savings to the consumer measured in tens of billions of dollars each year.

One can debate the many perspectives when measuring value to the consumer, but it neither serves the public nor the important work of your Committee to pretend that this is either a simple discussion or one aided by incomplete and outdated charts, data and analyses that totally ignore the real-world consumer experience.

Thank you for the opportunity to clarify the record.

Sincerely,

A handwritten signature in black ink, appearing to read 'K. McSarrow', with a long horizontal line extending to the right.

Kyle E. McSarrow

cc: The Honorable John Dingell
The Honorable Joe Barton
Members, Subcommittee on Telecommunications & the Internet

¹ Craig Moffett, Bernstein Research, "Weekend Media Blast: Death, Taxes . . . and Cable Rate Increases. A Look Behind the Headlines," Dec. 7, 2007 (emphasis added).