

Before the
Federal Communications Commission
Washington, D.C. 20554

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|--|---|----------------------|
| In the Matter of |) | |
| |) | |
| Implementation of Section 3 of the Cable |) | |
| Television Consumer Protection and Competition |) | MM Docket No. 92-266 |
| Act of 1992 |) | |
| |) | |
| Statistical Report on Average Rates for Basic |) | |
| Service, Cable Programming Service, and |) | |
| Equipment |) | |

REPORT ON CABLE INDUSTRY PRICES

Adopted: June 16, 2003

Released: July 8, 2003

By the Commission: Commissioner Copps dissenting and issuing a statement; Commissioner Adelstein concurring and issuing a statement.

I. INTRODUCTION

1. Section 623(k) of the Communications Act, as amended by the Cable Television Consumer Protection and Competition Act of 1992 (“1992 Cable Act”),¹ requires the Commission to publish annually a statistical report on cable prices, or more specifically, average rates for the delivery of basic cable service, cable programming service, and equipment.² The Act also requires the Commission to compare the average rates of cable operators subject to effective competition with those of operators not subject to effective competition.³ This 2002 Report is issued in compliance with those statutory obligations.⁴

¹ Section 623(k) was adopted as Section 3(k) of the 1992 Cable Act, Pub. L. No. 102-385, 106 Stat. 1460, codified at 47 U.S.C. § 543(k).

² See 47 U.S.C. § 543(k). The 1992 Cable Act defines basic cable service as the tier of service that includes the retransmission of local television broadcast signals. See 7 U.S.C. § 543(b)(7). Cable programming service is defined as any video programming other than video programming carried on the basic service tier, and video programming offered on a per channel or per program basis. See 47 U.S.C. § 543(k)(1)(2). Equipment refers to a converter box, remote control, and other equipment necessary to access programming. See 47 U.S.C. § 543(b)(3).

³ Effective competition exists where a multi-channel video programming distributor (“MVPD”) has met one of four tests within its franchise area: (1) fewer than 30% of households subscribe to the service of the cable system (herein referred to as the “low penetration test”); (2) at least two MVPDs serve 50% or more of households and at least 15% of those households take service other than from the largest MVPD (the “50/15 or overbuild test”); (3) a municipal MVPD offers service to at least 50% of households (the “municipal test”); or (4) a local exchange carrier (“LEC”) or its affiliate (or any MVPD using the facilities of the LEC or its affiliate) offers video programming service (other than direct broadcast satellite (“DBS”) service) comparable to the service of an unaffiliated MVPD (the “LEC test”). See 47 U.S.C. § 543(l)(1)(A-D).

⁴ For a summary of previous surveys, see Attachment 3. In several previous surveys, we included an econometric analysis of the survey results. That type of analysis is not included in this year’s report. We plan to resume the econometric analysis in subsequent reports.

2. The information and analysis provided in this Report are based on the Commission's 2002 survey of cable industry prices ("Survey").⁵ The Survey requested data from selected cable operators as of July 1, 2002 and July 1, 2001. Limited amounts of data were requested as of July 1, 2000. The Survey enables the Commission to compare prices charged by two groups of cable operators: (1) operators that are deemed to face effective competition (herein referred to as the "competitive group"); and (2) operators that do not face effective competition (the "noncompetitive group").⁶ Operators in the competitive group are limited to geographic areas where a cable operator has sought and obtained a Commission finding of effective competition.⁷ For these purposes, we rely on the Commission's formal legal decisions as to whether effective competition exists based on the statutory definition of that term. Because of this, we are not able to take into account those areas of the country where there may be sufficient competition to reach effective competition status including, for example, those areas where sufficient DBS competition may exist to support a finding of effective competition, but where no formal ruling to that effect has been requested or obtained.⁸ We also are not able to take into account situations where a finding of effective competition has been made but the situation subsequently has changed and the criteria for effective competition are no longer met, and that change has not been recognized through the filing of a franchise authority recertification petition.⁹

3. The Survey collected information about average monthly rates for the basic service tier ("BST") and major cable programming service tier ("CPST").¹⁰ The BST typically consists of local

⁵ Pursuant to 47 U.S.C. § 543(k), the Commission directed cable operators, selected as part of a random sample representative of the industry, to respond to certain data requests. *See Implementation of Section 3 of the Cable Television Consumer Protection and Competition Act of 1992, Statistical Report on Average Prices for Basic Service, Cable Programming Services, and Equipment*, 17 FCC Rcd 10470 (2002).

⁶ Cable operators are not subject to rate regulation in areas where the Commission has made a finding of effective competition. In other franchise areas, local communities have the authority to regulate the rates of the basic service tier ("BST") and equipment, but may or may not choose to exercise that authority. *See* 47 U.S.C. § 543(1)(2).

⁷ *See* note 3, *supra*.

⁸ There may be a significant number of such areas. The Commission has noted that DBS penetration now exceeds 20% of television households in some 30 states and 30% in five states. *See Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming*, 17 FCC Rcd 1273 (2002).

⁹ Last year's Survey included an econometric model that estimated the effect of wireline competition on average cable rates holding certain variables constant such as multiple system operator ("MSO") affiliation, degree of urbanization, number of channels offered, and system size (17 FCC Rcd 6301 at 6314-15). The wireline competitive subgroup consisted of cable operators that were found to meet the statutory definition for effective competition due to competition from a cable overbuild under the 50/15 test or the LEC test as defined in 47 USC § 543(1). The model did not include cable operators found to be subject to effective competition due to the presence of a DBS competitor. In a more recent study, GAO also used an econometric analysis to examine the effects of wireline competition on average cable prices. The set of competitive cable operators in GAO's model also consisted of operators meeting the 50/15 test and the LEC test. GAO, however, adjusted the status of certain operators from subject to effective competition to not subject to effective competition and *visa versa*, pursuant to a GAO determination of each operator's competitive situation at the time GAO performed its analysis. By making these adjustments and by using different variables in its model, GAO found a larger difference in cable rates between areas with and without a wireline competitor than the Commission found in its econometric model. *See Telecommunications, Issues in Providing Cable and Satellite Television Services*, Report to the Subcommittee on Antitrust, Competition, and Business and Consumer Rights, Committee on the Judiciary, U.S. Senate, GAO-03-130 (October 2002) at note 12.

¹⁰ The term "service tier" means a cable service for which the operator charges a separate rate. *See* 47 U.S.C. § 522(17). The "major" CPST tier typically meets two criteria: (1) offers the greatest number of channels among the CPST tiers, and (2) has the highest number of subscribers among the CPST tiers. Cable operators require subscribers to purchase the BST in order to purchase the CPST.

stations plus a few satellite channels.¹¹ The major CPST typically consists of satellite-delivered channels. About 90% of cable subscribers take both the BST and major CPST; the remaining 10% take BST only. We also collected information on the average monthly charge for equipment, consisting of an analog addressable converter and remote control. The Survey further sought information needed to determine average rates per channel. In addition, we gathered information on other factors that affect cable prices and competition in the multi-channel video programming distribution market, including: (1) programming; (2) digital service; (3) advanced services, including Internet, cable telephony, and interactive programming; and (4) cable service installation charges. We summarize, below, the major findings of the Survey for all cable operators, and separately for the competitive and noncompetitive groups.

II. SUMMARY OF FINDINGS

4. The Survey shows that the average monthly rate for cable service, both programming and equipment, increased by 8.2% from \$37.06 to \$40.11, over the 12-month period ending July 1, 2002. This compares with a 5-year compound annual rate of increase of 7.1% from July 1997 to July 2002.¹² The 8.2% increase reflects average increases in monthly charges of 3.7% for the BST, from \$13.93 to \$14.45; 10.8% for the CPST, from \$19.88 to \$22.02; and 12.0% for equipment, from \$3.25 to \$3.64. The average number of channels increased from 59.0 to 62.7 channels, an increase of 6.3% for the year ending July 1, 2002. To reflect this growth in channels, we calculated the average rate per channel.¹³ On this basis, the monthly rate per channel increased from 65.6 cents to 66.4 cents per channel, an increase of 1.2%. This compares with a 5-year average increase of 0.9%. These and other results for the competitive and noncompetitive groups combined appear in Tables 1 and 2 of this Report.

5. Both competitive and noncompetitive groups increased their average monthly rate at the same 8.2% level over the 12 months ending July 1, 2002. The competitive group charged \$37.84 and the noncompetitive group charged \$40.26, as of July 1, 2002.¹⁴ This represents a 6.4% differential, close to the 5-year average differential of 6.5%. Each category of the competitive group (determined by effective competition test) had a lower average rate than the noncompetitive group, ranging from 4.6% lower for the LEC category to 58.0% lower for the municipal category. On a per channel basis, the competitive group charged 63.7 cents and the noncompetitive group charged 66.6 cents, a 4.6% differential. The wireline overbuild subcategory, LEC, and municipal categories of the competitive group also had a lower

¹¹ Throughout the Report, by “local channel” we refer to those channels that carry local broadcast stations (either through must-carry requirement or retransmission agreement), public, educational, or government programming, commercial leased access, and other programming that originates locally. The term “satellite channels” refers primarily to nationally-delivered networks that are, predominately, delivered by satellite to the cable headend, but also includes major regional sports networks which, in a few cases, are delivered terrestrially. See Table 9 for a breakdown of the average number of analog channels by category of programming.

¹² Throughout the Report, the term “5-year average” refers to a 5-year compound annual rate of increase.

¹³ We calculated the average monthly rate per channel as the average monthly rate divided by the average number of channels. Ideally, when calculating price changes, we would like to take into account changes in the quantity and quality of service provided. In the case of cable rates, however, that is difficult to do because there is no readily available measure of service and programming quality. Both the quantity and quality of services provided have changed significantly in recent years as cable operators have upgraded their systems’ capacity. Increased system capacity, typically, results in additional channels of service and may also result in improved signal quality, improved system reliability and the provision of new services. We report average monthly rates on a per channel basis as a proxy for quality adjusted price changes.

¹⁴ Throughout this Report, there is only a slight difference, if any, in the overall average and the average for the noncompetitive group. This is because the group of operators that have received a specific Commission “effective competition” finding represents a relatively small group of cable operators, and thus there is only a slight effect from this group on the overall average.

average rate per channel than the noncompetitive group; the DBS subcategory and the low penetration category had higher average rates per channel than the noncompetitive group.¹⁵ Survey results comparing prices charged by competitive and noncompetitive cable operators appear in Tables 3 through 7.

6. Table 9 shows how BST and CPST channels are distributed among broad categories of programming. It shows that the number of satellite-delivered channels on the BST and CPST increased 7.7%. Other analog channels (*i.e.*, pay-per-view, premium, and mini-tier channels), however, declined from 9.7 to 7.4 channels over the 12-month period ending July 1, 2002. This decline reflects transitioning of pay-per-view, pay-per-channel and mini-tier channels from the analog to the digital channel lineup. Table 10 shows that subscribers who were offered digital service increased from 76% to 88% of all cable subscribers nationwide. The percentage of cable subscribers who take digital service grew from 15.1% to 24.1% over the 12-month period ending July 1, 2002.

7. Table 11 shows that the percentage of subscribers served by high capacity systems of 750 MHz or more reached 73% as of July 1, 2002. Table 12 shows that 70% of subscribers were offered cable Internet, and the percentage of all subscribers who take cable Internet grew from 5.4% to 9.6%.¹⁶ Subscribers offered cable telephony grew slightly to 16% of all subscribers and the percentage of all subscribers who take cable telephony went from 1.9% to 3.0% of cable subscribers nationwide. Video on demand and interactive services were offered, respectively, to 9.0% and 2.1% of all subscribers as of July 1, 2002. The percentages of subscribers who actually take these services are not available.

III. SURVEY METHODOLOGY

A. Overview

8. To compare average monthly rates of competitive and noncompetitive cable operators,¹⁷ we selected a separate sample from each group. These samples included 282 of the 356 operators in the competitive group and 473 of the 9,790 operators in the noncompetitive group. To ensure that the samples were representative and to gain more precise estimates, we stratified both groups into subgroups (or strata) and selected a portion of the sample from each stratum. The competitive group was divided according to the test by which effective competition was determined and the noncompetitive group according to the number of subscribers in each operator's cable system.

9. The number of cable operators selected from each stratum depended on the number of subscribers nationwide in that stratum. If an operator selected for our Survey serves more than one community, we selected one of those communities at random, provided that the community selected

¹⁵ The overbuild test category was further subdivided into those operators meeting the test because they faced competition from a wireline overbuilder and those that met the test because they faced competition from DBS. Cable operators making up the DBS overbuild subcategory may not be representative of the competitive response to DBS among cable operators generally, because this subgroup has a high proportion of systems located in rural areas. Cable operators in rural areas may face higher costs per subscriber than those in more densely-populated areas.

¹⁶ The 70% figure refers to the percentage of cable programming subscribers who were offered cable Internet service, not the percentage of all households (cable and non-cable). Similarly, the 9.6% figure is the percent of cable programming subscribers who also take cable Internet. The Survey, in addition, asked cable operators what percentage of their Internet and cable telephony subscribers did not subscribe to cable programming service. For cable Internet, the percentage was 2.8% in 2001 and 3.4% in 2002. For cable telephony, the percentage was 0.2% in 2001 and 0.3% in 2002.

¹⁷ "Operator" is defined in this Report on a system basis. For example, if an MSO has 10 cable systems, that MSO is considered to be 10 operators for the purpose of this report.

contained at least 5% of the operator's subscribers.¹⁸ Average monthly rates were calculated for each stratum. Averages for the competitive and noncompetitive groups were developed by averaging the stratum averages for each group, using a weighted average methodology. Each stratum within the group was assigned a weight corresponding to that stratum's share of subscribers nationwide. Subscriber weights were also used to form the average for the competitive and noncompetitive groups combined, by weighting each group according to its relative share of subscribers. Attachment 1 of this Report shows the weights given each stratum and group.

B. Survey Accuracy

10. Statistical sampling is a way of estimating the unknown characteristics of an entire population by examining a random sample that is representative of the population. Since this Report is based on a sample of cable operators, the averages we report probably do not match exactly the averages that would result if we surveyed all cable operators. If it were possible to survey all cable operators we might have increased accuracy, but this would have also increased the cost of the Survey. The number of cable operators we selected to include in our Survey ("sample size") strikes a reasonable balance between accuracy and cost.

11. The difference between the true average and our sample average (or "standard error") depends on both sample size and the degree of variability inherent in the monthly rates that cable operators charge.¹⁹ We can estimate this standard error from our Survey data, and use it to express a degree of confidence that the true average falls within a range around our sample average. This degree of confidence is usually expressed as assurance that in 95 out of 100 similar samples, the true average will fall within the stated range (the "95%-confidence interval").²⁰

12. We report standard errors for our estimates of average monthly rates in the Attachments, which can be used to calculate the 95%-confidence interval for specific averages. In addition, some tables in this Report identify whether percent differences in monthly rates, either over time or between the competitive and noncompetitive groups, are statistically significant at a 95%-confidence level. This means that at least 95 out of 100 similar samples would show that the averages are different.

13. We attempted to further reduce the standard error by using a stratified sampling methodology. As explained in the overview, this entailed dividing the competitive and noncompetitive groups into strata and selecting a portion of the sample from each stratum.²¹ By testing data from prior surveys, we were able to stratify noncompetitive cable operators according to size thresholds that yielded relatively uniform rates and low standard errors within each stratum.²² For the competitive group, we found that stratifying by type of competition faced yielded more precise estimates than dividing by

¹⁸ For a list of cable operators and communities, see FCC <<http://fcc.gov>>, *All Cable Communities Registered with the FCC*, Media Bureau.

¹⁹ Our sample sizes were chosen to limit the standard errors of our estimated averages to 1% at a 95% degree of confidence, applying a statistical formula found in B. J. Mandel, *Statistics for Management* (1984), at 258.

²⁰ This "95%-confidence interval" is bounded by the sample average plus or minus 1.955 multiplied by the standard error. For example, the average monthly rate for programming and equipment as of July 1, 2002 is \$40.11 and the standard error is 50 cents, as shown in Attachment 2. We estimate at a 95% confidence level that the true average lies between \$39.13 and \$41.09. We arrive at the lower end of the range by subtracting $1.955 \times \$0.50$ from our estimated average of \$40.11. We arrive at the upper end by adding $1.955 \times \$0.50$ to \$40.11.

²¹ For an explanation of stratified sampling methods, see, e.g., G. W. Snedecor and W. G. Cochran, *Statistical Methods*, 7th ed. (1980), at 435-459.

²² We excluded 822 noncompetitive systems for which we lacked a subscriber count. These 822 systems, however, are similar to other systems in the sample frame, and thus our sampling frame is representative of all systems.

system size. Each stratum was weighted according to its importance with respect to the number of subscribers nationwide. As described in the overview, the weights determined the proportion of the sample drawn from each stratum, and were also used to develop weighted averages for the groups.²³

C. Strata

14. We divided competitive operators into five strata based upon the test for which effective competition was determined. Operators meeting the 50/15 or overbuild test were subdivided into two strata: (1) wireline overbuild; and (2) DBS overbuild. The remaining operators in the competitive group were divided into three strata as follows: (1) low penetration; (2) municipal; and (3) LEC. The LEC stratum consists of both the incumbent cable operators who competed with an affiliate of a LEC at the time that a finding of effective competition was made and the LEC affiliates. The other strata, except for the DBS stratum, similarly consist of the incumbent cable operators as well as the relevant competitors. The DBS stratum includes only the incumbent because monthly rates of DBS operators are not part of the Survey.

15. For the LEC, wireline overbuild, DBS overbuild, and municipal strata, we included all 95, 37, 42, and 14 operators, respectively, in our Survey because of the relatively small number of operators in each of these four strata. We chose to use a random sample for the low penetration stratum because that subgroup had a large number of operators, 168 in all, from which we randomly selected 94 for that stratum. This resulted in a total of 282 operators for the competitive group.

16. Noncompetitive operators also were divided into five strata. The number of cable operators selected from each stratum depended on the number of subscribers nationwide in that stratum. A sample of operators not stratified by size would have placed a disproportionately greater emphasis on smaller systems relative to the number of subscribers the smaller systems serve. The “very large” stratum includes operators serving more than 50,000 subscribers in a single community. The “large” stratum contains operators serving more than 50,000 subscribers, but with no individual community exceeding 50,000 subscribers. The “medium” stratum is comprised of operators serving from 10,001 through 50,000 subscribers. The “small” stratum includes operators serving from 1,001 through 10,000 subscribers, and the “very small” stratum includes operators with 1,000 or fewer subscribers.

17. The high proportion of subscribers nationwide represented by the very large stratum resulted in the selection of all 99 operators in that stratum. Other selections include 109 of the 169 large operators; 153 of the 888 medium-sized operators; 72 of the 2,717 small operators; and 40 of the 5,917 very small operators. Because of the low proportion of subscribers nationwide represented by very small operators, our formula for calculating sample size initially produced fewer selections from that stratum. We adjusted the number of selections upward to 40 operators, however, to ensure that we had a sufficient number of observations from that stratum for statistical precision.

18. Of the 755 Survey questionnaires mailed to cable operators from both groups, respondents completed 693 questionnaires. Of the 61 incomplete questionnaires, operators explained that information was unavailable for 22 systems that had recently been sold or combined with other systems, and 12 questionnaires were undeliverable. Competitive cable operators submitted 261 of the completed questionnaires. Of these, 163 operators had direct competition in their geographic area, with 91 meeting

²³ There are several methods to calculate weights. The method we use for each group equals the average monthly rate calculated for each stratum times the percent of subscribers in that stratum. The subscriber counts upon which the weights are based were taken from Form 325 filings as of 1994, the most recent year that subscriber counts are available. Since it is likely that the percentage growth in subscribers has been fairly evenly distributed across all systems, the 1994 weights serve as a reasonable approximation of year 2002 weights. For further information on methods of calculating weighted averages, see W. E. Deming, *Some Theory of Sampling* (1950), at 135-211.

the LEC test, 72 meeting the overbuild test (with 31 in the wireline overbuild subgroup and 41 in the DBS overbuild subgroup), and 13 served a community in which the municipality owned one of the operators (thereby meeting the municipal test). Of the remaining respondents in the competitive group, 85 met the low penetration test at the time the finding of effective competition was made. Noncompetitive cable operators submitted the remaining 432 responses.

D. Weights

19. Within the competitive group, we estimate that operators in the LEC stratum served 59.10% of subscribers. Similarly, we estimate that the percentage of subscribers served by operators in each of the remaining strata were as follows: wireline overbuild, 13.74%; DBS overbuild, 13.05%; low penetration, 13.49%, and municipal, 0.62%.

20. Within the noncompetitive group, we estimate that operators in the very large and large strata served, respectively, 22.62% and 24.59% of subscribers. We also estimate that operators in the medium-sized stratum served 33.82%, operators in the small stratum served 15.63%, and operators in the very small stratum served 3.34% of subscribers.

21. These percentages became the weights used to calculate weighted averages of monthly rates for the competitive and noncompetitive groups. To calculate the overall average for the competitive and noncompetitive groups combined, we estimate that operators in the competitive group served 6.1% of subscribers nationwide and operators in the noncompetitive group served 93.9% of subscribers nationwide.

E. Variables

22. From the Survey responses, we calculated averages for the variables described below:

Average monthly rate for BST and CPST programming. This is the average monthly rate for programming services. It is the total of the monthly rate paid by subscribers to receive the BST and major CPST. It excludes additional charges that subscribers may incur for a CPST beyond the major tier, pay-per-view or pay-per channel programming, and digital programming. It also excludes the cost of any cable equipment, as well as cable installation charges.

Average monthly charge for equipment. This is the monthly charge paid by subscribers for an addressable analog set-top box plus a remote control.

Average monthly rate for programming and equipment. This is the sum of the average monthly rate for programming and equipment. It represents the rate that a typical subscriber pays on average for BST and CPST service, and equipment.

Average number of channels. This variable is the average number of local and satellite channels in the BST and CPST channel lineup.²⁴ Consistent with the monthly rate for programming services, this variable excludes channels on any CPST beyond the major tier, as well as channels devoted to pay-per-view, pay-per-channel, and digital programming.

Average monthly rate per channel. This variable is the average monthly rate for programming service divided by the average number of channels.²⁵ We also report the average monthly rate per

²⁴ See note 11, *supra*, for definitions of “local” and “satellite” channels.

²⁵ The value of cable services can be measured in various ways. Some analysts have suggested that the average number of channels (or satellite channels) received by subscribers, along with their respective per channel rates, are an appropriate measure of value. Alternatively, others have suggested that subscribers may not similarly value an increase in the number of channels as more channels are added, and thus the additional channels may have a declining marginal value. Because of the difficulty of obtaining consumer valuation data, our Survey did not seek

(continued...)

satellite channel, which is equal to the average monthly rate for programming service divided by the average number of satellite channels.

23. In addition to the averages described above, our findings include the percentage share of various categories of costs that reportedly led to changes in the average monthly rate for BST and CPST programming. We also present findings on major categories of programming; installation charges; and the availability and growth of digital and advanced services.

IV. SURVEY RESULTS

A. Average Monthly Rates

24. Table 1 shows the average monthly rate of all cable operators for programming and equipment as of July 2000, 2001, and 2002.²⁶ The average monthly rate for programming and equipment increased by 8.2%, from \$37.06 on July 1, 2001, to \$40.11 on July 1, 2002. This compares with a 7.6% increase over the previous 12-month period and a 5-year average increase of 7.1%. The average rate per channel increased by 1.2% over the year ending July 1, 2002, compared with 1.7% for the previous year and a 5-year average increase of 0.9%.

25. Table 1 also shows the components of programming -- BST and CPST. Between July 1, 2001 and July 1, 2002, the average rate for BST, which typically includes broadcast and other local channels plus a few satellite channels, increased by 3.7%, from \$13.93 to \$14.45. The average rate for CPST, which typically consists entirely of satellite channels, increased by 10.8%, from \$19.88 to \$22.02. The average monthly rate for equipment, consisting of an addressable analog converter and remote control, increased by 12.0%, from \$3.25 to \$3.64 for the year ending July 1, 2002.²⁷

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information on how consumers value the channels on the BST and CPST tiers they receive, or how they would value those tiers if given the option of receiving fewer channels or different channels than those offered.

²⁶ Averages for July 2000 and July 2001 shown in this Report do not match exactly the averages for July 2000 and 2001 shown in previous reports. (For cites to previous Reports, see Attachment 3.) This is because each Report is based on a different sample of cable operators. The variability inherent in samples is discussed in Section III.B.

²⁷ Cable operators are permitted to average the cost of subscriber equipment, including analog and digital converters and a remote control unit. Therefore, some of the increase in the cost of analog equipment reported in Table 1 may be the result of the introduction of higher priced digital equipment. We report the average price of digital equipment separately in Table 10.

Table 1. Change in Average Monthly Rate

| <u>Element</u> | <u>July 2000</u> | <u>July 2001</u> | <u>Percent Change 7/00 – 7/01</u> | <u>July 2002</u> | <u>Percent Change 7/01 – 7/02</u> | <u>5-Year Average 7/97 – 7/02</u> |
|------------------------------|----------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|---------------------------------------|
| BST | \$13.48 | \$13.93 | 3.3% | \$14.45 | 3.7% | 4.5% |
| Major CPST | <u>\$18.01</u> | <u>\$19.88</u> | 10.4% | <u>\$22.02</u> | 10.8% | 8.7% |
| Programming total | \$31.49 | \$33.81 | 7.4%* | \$36.47 | 7.9%* | 7.0%* |
| Equipment | <u>\$2.95</u> | <u>\$3.25</u> | 10.2% | <u>\$3.64</u> | 12.0% | 8.5% |
| Programming + equipment | \$34.44 | \$37.06 | 7.6%* | \$40.11 | 8.2%* | 7.1%* |
| Number of local channels | 15.6 | 16.0 | 2.6% | 16.4 | 2.5% | 4.4% |
| Number of satellite channels | <u>40.6</u> | <u>43.0</u> | 5.9%* | <u>46.3</u> | 7.7%* | 6.4%* |
| Total number of channels | 56.2 | 59.0 | 5.0%* | 62.7 | 6.3%* | 5.4%* |
| Average rate per channel | \$0.645 | \$0.656 | 1.7% | \$0.664 | 1.2% | 0.9% |
| Avg. per satellite channel | \$0.902 | \$0.909 | 0.8% | \$0.908 | -0.1% | 0.6% |

* Statistically significant at 95% confidence level. See Attachments 2, 3, and 7.

26. In addition, Table 1 divides the combined number of channels on BST and major CPST into local and satellite channels and shows the average rate per channel for satellite channels and all channels (based on the rate for programming and equipment). Significantly, the large increase in the average rate for CPST service correlates with substantial growth in the number of satellite channels. While the number of local channels increased by 2.5%, from 16.0 to 16.4 channels, satellite channels increased by 7.7%, from 43.0 to 46.3 channels. Correspondingly, the decrease of -0.1% in the average rate per satellite channel compares with an increase of 1.2% in the average rate per channel overall.

27. Table 2 compares consumer price indices with the average monthly rate for programming and equipment shown in Table 1. The Bureau of Labor Statistics (“BLS”) publishes a Consumer Price Index (“CPI”) that measures price inflation related to all goods and services for all urban consumers. By this measure, inflation increased by 1.5% over the 12 months ending July 2002, and by an average of 2.3% over the past five years. The BLS also publishes price indices for many components and sub-components of the overall CPI. Among these, the BLS publishes a price index for cable services (“cable CPI”), which is one of the sub-components of the overall CPI. The cable CPI increased by 6.3% over the 12 months ending July 2002, and by an average of 5.2% over the past five years. The cable CPI cannot be compared directly with the results of our Survey, however, because the cable CPI covers a different mix of services and includes quality adjustments such as for channels added.²⁸

²⁸ BLS bases the cable CPI on a survey of items on consumers’ monthly cable bills, and includes such items as premium services (i.e., pay-per-channel) and installation costs, which are not included in our monthly average. When an item shows a significant change in price, and there is a concomitant change in the nature of the product or service, BLS attempts to make a quality adjustment. BLS may increase or decrease the observed price of an item, depending on whether the change deteriorated or improved the quality of the particular product or service. In the case of cable service, the addition of channels is sometimes perceived as an improvement in quality, but not always, and thus sometimes lowers the reported percentage increase in the price index.

Table 2. Percentage Change in Comparison to CPI

| <u>Time Period</u> | <u>FCC Cable Price Survey</u> | | <u>Bureau of Labor Statistics</u> | |
|--|--|----------------------------------|-----------------------------------|------------------|
| | <u>Average Monthly Rate</u> [†] | <u>Avg. Mo. Rate per Channel</u> | <u>Consumer Price Index</u> | <u>Cable CPI</u> |
| July 2001 to July 2002 | 8.2% | 1.2% | 1.5% | 6.3% |
| 5-year average, July 1997 to July 2002 | 7.1% | 0.9% | 2.3% | 5.2% |

[†] Including programming and equipment. See Attachment 3 for further comparisons.

B. Comparison between Competitive and Noncompetitive Groups

28. Table 3 shows the difference in average monthly rate (“competitive differential”) between the group of operators facing effective competition and those not facing effective competition, as of July 2002, July 2001, and for the 5-year averages (July 1997 to July 2002). On July 1, 2001, competitive and noncompetitive cable operators charged, respectively, \$34.98 and \$37.20; a 6.3% differential. On July 1, 2002, competitive operators were charging \$37.84 while noncompetitive operators were charging \$40.26; a 6.4% differential. Table 3 also compares the number of channels and the rate per channel. As of July 1, 2002, the competitive differential in the number of channels was insignificant, and the competitive differential in average monthly rate per channel was 4.6% (representing a decline from 5.1% as of July 2001).

Table 3. Comparison Between Competitive and Noncompetitive Groups

| <u>Element</u> | <u>Competitive Group</u> | <u>Noncompetitive Group</u> | <u>Competitive Differential</u> | |
|-------------------------|--------------------------|-----------------------------|---------------------------------|----------------|
| | | | <u>Amount</u> | <u>Percent</u> |
| July 2002 | | | | |
| Programming & equipment | \$37.84 | \$40.26 | \$2.42 | 6.4%* |
| Number of channels | 62.9 | 62.7 | -0.2 | -0.3% |
| Rate per channel | \$0.637 | \$0.666 | \$0.029 | 4.6% |
| July 2001 | | | | |
| Programming & equipment | \$34.98 | \$37.20 | \$2.22 | 6.3%* |
| Number of channels | 59.9 | 58.9 | -1.0 | -1.7% |
| Rate per channel | \$0.626 | \$0.658 | \$0.034 | 5.1% |
| 5-Year Average | | | | |
| Programming & equipment | \$32.45 | \$34.57 | \$2.12 | 6.5%* |
| Number of channels | 57.0 | 56.2 | -0.8 | -1.4% |
| Rate per channel | \$0.613 | \$0.647 | \$0.034 | 5.6% |

* Statistically significant at 95% confidence level. See Attachment 2.

29. To determine if the difference in averages between the competitive and noncompetitive groups holds over different system size thresholds, we also have calculated averages for the competitive group by system size. Table 4 shows that the competitive differential varies across the size categories, but tends to be lower than the differentials shown in Table 3. The competitive differential in average monthly rate for large systems is 3.4%, lower than the 6.4% differential shown in Table 3. On a per channel basis, however, large systems have a 5.6% competitive differential, higher than the 4.6% differential between the major groups. This probably reflects recent growth in the number of large systems granted effective competition status. These additions to the competitive group tend to have a relatively higher monthly rate and number of channels, and a relatively lower rate per channel.

Table 4. Competitive Differential by System Size[†]

| <u>Group</u> | <u>Average Monthly Rate^{††}</u> | | | <u>Number of Channels</u> | | | <u>Rate per Channel</u> | | |
|----------------|--|---------------|--------------|---------------------------|---------------|--------------|-------------------------|---------------|--------------|
| | <u>Large</u> | <u>Medium</u> | <u>Small</u> | <u>Large</u> | <u>Medium</u> | <u>Small</u> | <u>Large</u> | <u>Medium</u> | <u>Small</u> |
| Noncompetitive | \$41.53 | \$40.26 | \$37.13 | 67.3 | 63.2 | 50.3 | \$0.625 | \$0.651 | \$0.792 |
| Competitive | \$40.17 | \$39.34 | \$31.91 | 69.1 | 61.9 | 46.7 | \$0.592 | \$0.651 | \$0.780 |
| Differential | 3.4% | 2.3% | 16.4% | -2.6% | 1.3% | 3.6% | 5.6% | 0.0% | 1.5% |

[†] Large systems have greater than 50,000 subscribers, medium systems have between 10,001 and 50,000 subscribers, and small systems have 10,000 or less subscribers. ^{††} Including programming and equipment.

30. For the competitive group, Table 5 divides the monthly average rate from Table 3 into BST, CPST, and equipment components. Table 5 also reports channels and average rate per channel. The average rate charged for BST service increased by 5.1% for the year ending July 2002, slightly below the 5-year average of 5.7%. The average rate charged for CPST service increased by 9.8% over the same period, above the 5-year average of 7.5% for competitive operators. The average charge for equipment increased by 11.8%, above its 5-year average of 8.3%. The average number of channels grew by 5.0%, from 59.9 to 62.9 channels, higher than the 3.4% average growth over the most recent 5-year period. The average rate per channel increased by 1.8%, less than the 5-year average of 3.0%.

Table 5. Competitive Group

| <u>Element</u> | <u>July 2000</u> | <u>July 2001</u> | <u>Percent Change 7/00 – 7/01</u> | <u>July 2002</u> | <u>Percent Change 7/01 – 7/02</u> | <u>5-Year Average 7/97 – 7/02</u> |
|------------------------------|------------------|------------------|-----------------------------------|------------------|-----------------------------------|-----------------------------------|
| BST | \$12.79 | \$13.41 | 4.8% | \$14.09 | 5.1% | 5.7% |
| Major CPST | <u>\$16.97</u> | <u>\$18.44</u> | 8.7% | <u>\$20.25</u> | 9.8% | 7.5% |
| Programming total | \$29.76 | \$31.85 | 7.0% | \$34.34 | 7.8%* | 6.7% |
| Equipment | <u>\$2.69</u> | <u>\$3.13</u> | 16.4% | <u>\$3.50</u> | 11.8% | 8.3% |
| Programming + equipment | \$32.45 | \$34.98 | 7.8%* | \$37.84 | 8.2%* | 6.9% |
| Number of channels | 57.0 | 59.9 | 5.1% | 62.9 | 5.0% | 3.4% |
| Average rate per channel | \$0.613 | \$0.626 | 2.1% | \$0.637 | 1.8% | 3.0% |
| Number of satellite channels | 42.8 | 45.4 | 6.1% | 47.9 | 5.5% | --- |
| Avg. per satellite channel | \$0.840 | \$0.851 | 1.3% | \$0.859 | 0.9% | --- |

* Statistically significant at 95% confidence level. See Attachments 2 and 3.

31. Table 6 shows analogous results for the noncompetitive group. The average rate charged for BST service increased by 3.7% for the year ending July 1, 2002, from \$13.96 to \$14.47, less than the 5-year average increase of 4.5%. The average rate charged for CPST service over the same period increased by 10.8%, from \$19.98 to \$22.14, compared with a 5-year average increase of 8.7% for noncompetitive operators. The average charge for equipment increased by 12.0%, above its 5-year average of 8.6%. The average number of channels grew by 6.5%, from 58.9 to 62.7 channels, higher than its 5-year average of 5.4%. Nevertheless, the average rate per channel increased by 1.2%, compared with an average increase of 0.8% over the past five years.

Table 6. Noncompetitive Group

| <u>Element</u> | July 2000 | July 2001 | Percent Change 7/00 – 7/01 | July 2002 | Percent Change 7/01 – 7/02 | 5-Year Average 7/97 – 7/02 |
|------------------------------|----------------|----------------|-------------------------------|----------------|-------------------------------|-------------------------------|
| BST | \$13.53 | \$13.96 | 3.2% | \$14.47 | 3.7% | 4.5% |
| Major CPST | <u>\$18.08</u> | <u>\$19.98</u> | 10.5% | <u>\$22.14</u> | 10.8% | 8.7% |
| Programming total | \$31.61 | \$33.94 | 7.4%* | \$36.61 | 7.9%* | 7.0%* |
| Equipment | <u>\$2.96</u> | <u>\$3.26</u> | 10.1% | <u>\$3.65</u> | 12.0% | 8.6% |
| Programming + equipment | \$34.57 | \$37.20 | 7.6%* | \$40.26 | 8.2%* | 7.1%* |
| Number of channels | 56.2 | 58.9 | 4.8% | 62.7 | 6.5%* | 5.5%* |
| Average rate per channel | \$0.647 | \$0.658 | 1.7% | \$0.666 | 1.2% | 0.8% |
| Number of satellite channels | 40.6 | 42.9 | 5.7% | 46.3 | 7.9%* | --- |
| Avg. per satellite channel | \$0.906 | \$0.913 | 0.8% | \$0.912 | -0.1% | --- |

* Statistically significant at 95% confidence level. See Attachment 2.

32. Table 7 reports the average monthly rate for each competitive stratum -- wireline overbuild, DBS overbuild, LEC, low penetration, and municipal -- compared with the average for the noncompetitive group. It shows that the average monthly rate for the noncompetitive group exceeds the average for each stratum of the competitive group. The average monthly rate per channel is lower for each category of the competitive group than the noncompetitive group except for the DBS and low penetration strata. The competitive response of those operators making up the DBS overbuild stratum, however, may not be representative of the competitive response to DBS among cable operators generally because this subgroup has a high proportion of systems located in rural areas. Similarly, the low penetration stratum has a high proportion of rural cable operators. Cable operators in rural areas may face higher costs per subscriber because operators in those areas may need more distribution plant per subscriber to reach their customers.

Table 7. Percent by which Noncompetitive Group Exceeds Each Competitive Strata

| <u>Element</u> | <u>Wireline Overbuild</u> | <u>DBS Overbuild</u> | <u>LEC</u> | <u>Low Penetration</u> | <u>Municipal</u> |
|-----------------------------------|-------------------------------|--------------------------|------------|----------------------------|------------------|
| July 2002 | | | | | |
| Average monthly rate [†] | \$37.61 | \$37.05 | \$38.48 | \$36.56 | \$25.48 |
| <i>Differential</i> | 7.0% | 8.7%* | 4.6%* | 10.1%* | 58.0%* |
| Channels | 60.9 | 53.9 | 67.6 | 53.4 | 50.4 |
| <i>Differential</i> | 3.0% | 16.3% | -7.2%* | 17.4% | 24.4% |
| Rate per channel | \$0.646 | \$0.776 | \$0.577 | \$0.762 | \$0.538 |
| <i>Differential</i> | 3.1% | -14.2% | 15.4%* | -12.6% | 26.1%* |
| July 2001 | | | | | |
| Average monthly rate [†] | \$34.78 | \$33.50 | \$35.68 | \$34.08 | \$24.63 |
| <i>Differential</i> | 7.0%* | 11.0%* | 4.3%* | 9.2%* | 51.0%* |
| Channels | 57.8 | 46.6 | 66.2 | 48.5 | 47.9 |
| <i>Differential</i> | 1.9% | 26.4% | -11.0%* | 21.4% | 23.0% |
| Rate per channel | \$0.636 | \$0.811 | \$0.548 | \$0.777 | \$0.532 |
| <i>Differential</i> | 3.5% | -18.9% | 20.1%* | -15.3% | 23.7%* |

[†] Programming and equipment. * Statistically significant difference at 95% confidence level. See Attachment 4.

C. Operators' Explanation for Changes in Average Monthly Rates

33. As in prior years, in order to place the changes in rates in context, the Survey asked respondents to explain changes in their monthly rates for programming services (BST and CPST only) between survey years by attributing those changes to various categories of increased costs or other factors. We recognize that the answers provided by cable operators for these particular questions may not have the same degree of precision as the answers to questions about monthly rates because these questions necessarily require making estimates and allocating those estimates among various factors. In addition, because the survey required these factors to equal the amount of the rate increases, to the extent that one or more of the factors was over or under estimated by the respondents, the remaining factors will be likewise under or over estimated. For example, the percentage of the rate change attributable to programming cost increases would be overestimated if one or more of the other factors were underestimated. Despite these shortcomings inherent in the data, we are providing these estimates because, on balance, we believe they provide information that helps puts the changes in rates in perspective with reported cost increases. For subsequent reports we anticipate revising these questions in an effort to obtain more reliable information from cable operators.

34. Table 8 shows the percentage by which each factor contributed to the increase in programming rates. Both the competitive and noncompetitive groups attributed much of their rate increases to changes in the cost of programming, including both the increased cost of existing programming and the initial cost associated with programming for newly added channels. For the 12 months ending July 2002, the competitive group attributed 61.7% and the noncompetitive group attributed 66.1% of their higher rates to programming cost increases. For the competitive and noncompetitive groups, respectively, system upgrades accounted for 13.3% and 5.7% of the increases in average monthly rates, general inflation accounted for 12.2% and 13.3% of the increases, and unspecified costs accounted for 14.1% and 11.6% of the increases.

Table 8. Percent Contribution of Costs to Changes in Average Monthly Rates for Programming

| <u>Nature of Cost Change</u> | <u>All Cable Operators</u> | | <u>Competitive Group</u> | | <u>Noncompetitive Group</u> | |
|------------------------------|----------------------------|------------------|--------------------------|------------------|-----------------------------|------------------|
| | <u>July 2001</u> | <u>July 2002</u> | <u>July 2001</u> | <u>July 2002</u> | <u>July 2001</u> | <u>July 2002</u> |
| Fees for existing programs | 46.1% | 51.0% | 43.9% | 46.5% | 46.2% | 51.3% |
| Fees for new programming | <u>13.8%</u> | <u>14.8%</u> | <u>17.8%</u> | <u>14.7%</u> | <u>13.5%</u> | <u>14.8%</u> |
| Total of Existing and new | 59.9% | 65.8% | 61.7% | 61.2% | 59.7% | 66.1% |
| Upgrade to cable system | 5.6% | 6.2% | 16.0% | 13.3% | 4.9% | 5.7% |
| General inflation | 16.6% | 13.2% | 16.7% | 12.2% | 16.6% | 13.3% |
| Other cost changes | 15.1% | 11.8% | 5.0% | 14.1% | 15.8% | 11.6% |
| Unrelated to cost changes | 0.9% | 3.0% | -0.4% | 0.7% | 1.0% | 3.2% |
| Unexplained (non-responses) | 1.9% | 0.0% | 1.0% | (1.5%) | 2.0% | 0.1% |

See Attachment 6 for further results.

V. OTHER FINDINGS

A. Distribution of Programming

35. Table 9 shows a breakdown by category of the average number of channels on BST and major CPST, as of July 1, 2001, and July 1, 2002. It shows that local channels and satellite channels on

the BST and CPST increased, respectively, by 2.5% and 7.7%. The category for other analog channels, however, declined from 9.7 to 7.4 channels for the 12-month period ending July 1, 2002. This decline reflects transitioning of pay-per-view, pay-per-channel, and mini-tier channels from the analog to the digital channel lineup.

Table 9. Distribution of Analog Programming

| <u>Category</u> | <u>Average Number of Channels</u> | | | <u>By Group, July 1, 2002</u> | |
|------------------------------------|-----------------------------------|------------------|-----------------|-------------------------------|-----------------------|
| | <u>July 2001</u> | <u>July 2002</u> | <u>% Change</u> | <u>Competitive</u> | <u>Noncompetitive</u> |
| BST and Major CPST | | | | | |
| Local broadcast stations | 11.4 | 11.7 | 2.6% | 11.2 | 11.7 |
| Public, educational, or government | 2.8 | 2.8 | 0.0% | 2.2 | 2.8 |
| Commercial leased access | 0.8 | 0.9 | 12.5% | 0.8 | 0.9 |
| Other local channels | <u>1.0</u> | <u>1.0</u> | 0.0% | <u>1.2</u> | <u>1.0</u> |
| Total of local channels | 16.0 | 16.4 | 2.5% | 15.4 | 16.4 |
| Satellite sports channels | 4.0 | 4.3 | 7.5% | 4.6 | 4.3 |
| Other satellite channels | <u>39.0</u> | <u>42.0</u> | 7.7% | <u>42.9</u> | <u>42.0</u> |
| Total of satellite channels | 43.0 | 46.3 | 7.7% | 47.5 | 46.3 |
| Total for BST and major CPST | 59.0 | 62.7 | 6.3% | 62.9 | 62.7 |
| Other Analog Channels | | | | | |
| Other analog channels | 9.7 | 7.4 | -23.7% | 7.4 | 7.4 |
| Total of analog channels | 68.7 | 70.1 | 2.0% | 70.3 | 70.1 |
| See Attachment 7. | | | | | |

B. Digital Service

36. Digital service is separate from BST and CPST. Charges for digital tier service were not included in the calculation of average monthly rates that serve as the focus of this report. Table 10 provides information, however, on the major digital tier (i.e., the most highly-subscribed digital tier) of programming.

Table 10. Digital Service

| <u>Element</u> | <u>All Cable Operators</u> | | <u>Competitive Group</u> | | <u>Noncompetitive Group</u> | |
|---|----------------------------|------------------|--------------------------|------------------|-----------------------------|------------------|
| | <u>July 2001</u> | <u>July 2002</u> | <u>July 2001</u> | <u>July 2002</u> | <u>July 2001</u> | <u>July 2002</u> |
| Basic Digital Tier | | | | | | |
| Ave. monthly rate for the major digital tier [†] | \$9.62 | \$10.12 | \$10.44 | \$11.05 | \$9.56 | \$10.07 |
| Charge for a converter & remote control | <u>\$4.66</u> | <u>\$4.87</u> | <u>\$4.78</u> | <u>\$5.02</u> | <u>\$4.65</u> | <u>\$4.86</u> |
| Total for the major digital tier | \$14.28 | \$14.99 | \$15.22 | \$16.07 | \$14.21 | \$14.93 |
| Average price per channel, major digital tier | \$0.41 | \$0.41 | \$0.44 | \$0.42 | \$0.41 | \$0.41 |
| Number of channels on major digital tier | 27.3 | 30.9 | 28.7 | 33.1 | 27.2 | 30.8 |
| Number of other digital channels | 74.0 | 88.5 | 77.3 | 95.2 | 73.8 | 88.1 |
| Total number of digital channels | 101.3 | 119.4 | 106.0 | 128.3 | 101.0 | 118.9 |
| Other Statistics | | | | | | |
| Subscribers offered digital, nationwide | 76.2% | 88.3% | 71.7% | 86.1% | 76.5% | 88.5% |
| Subscribers taking digital, nationwide | 15.1% | 24.1% | 15.0% | 24.0% | 15.9% | 25.2% |

[†]The most highly-subscribed digital tier.

C. System Capacity

37. Over the year ending July 1, 2002, the percentage of systems with capacity of 750 MHz and above increased from 62.9% to 73.4%.

Table 11. Average System Capacity

| <u>System Size</u> | <u>All Cable Operators</u> | | <u>Competitive Group</u> | | <u>Noncompetitive Group</u> | |
|---|----------------------------|------------------|--------------------------|------------------|-----------------------------|------------------|
| | <u>July 2001</u> | <u>July 2002</u> | <u>July 2001</u> | <u>July 2002</u> | <u>July 2001</u> | <u>July 2002</u> |
| Average system capacity (MHz) | 656.1 | 694.1 | 650.3 | 677.3 | 656.5 | 695.7 |
| Percent of subscribers served by systems: | | | | | | |
| 750 MHz and higher | 62.9% | 73.4% | 65.4% | 72.7% | 62.8% | 73.4% |
| Above 330 & below 750 MHz | 29.2% | 20.7% | 24.8% | 19.2% | 29.4% | 20.8% |
| 330 MHz and below | 7.9% | 5.9% | 9.8% | 8.1% | 7.8% | 5.8% |

D. Advanced Services

38. As shown in Table 12, 69.6% of subscribers were offered cable Internet, and the percent taking cable Internet grew from 5.4% to 9.6%. Subscribers offered cable telephony grew slightly to 15.5%, and the percent taking cable telephony went from 1.9% to 3.0% of cable subscribers. Video on demand and interactive services were offered, respectively, to 9.0% and 2.1% of subscribers on July 1, 2002.

Table 12. Advanced Services

| <u>Cable Service</u> | <u>All Cable Operators</u> | | <u>Competitive Group</u> | | <u>Noncompetitive Group</u> | |
|---|----------------------------|------------------|--------------------------|------------------|-----------------------------|------------------|
| | <u>July 2001</u> | <u>July 2002</u> | <u>July 2001</u> | <u>July 2002</u> | <u>July 2001</u> | <u>July 2002</u> |
| Percent of cable subscribers offered | | | | | | |
| Internet Access | 53.0% | 69.6% | 51.7% | 66.5% | 53.1% | 69.8% |
| Cable Telephony | 13.8% | 15.5% | 12.7% | 14.2% | 13.9% | 15.9% |
| Video on Demand | 3.0% | 9.0% | 3.3% | 12.7% | 2.9% | 8.7% |
| Interactive Services | 1.0% | 2.1% | 1.6% | 2.5% | 0.9% | 2.1% |
| Percent of cable subscribers taking | | | | | | |
| Internet Access | 5.4% | 9.6% | 5.7% | 9.6% | 5.4% | 9.6% |
| Cable Telephony | 1.9% | 3.0% | 1.9% | 2.8% | 1.9% | 3.1% |

39. Table 13 compares one-time charges for service installation exclusive of promotional discounts that may have been offered. As of July 1, 2002, cable operators charged \$43.38, on average, for installation, representing a 3.1% increase over the prior year. The noncompetitive group charged 6.7% more than the competitive group. The average charge for pre-wired home installation grew by 4.6%, from \$29.43 to \$30.77, and the average charge for reconnection of cable service increased by 6.3%, from \$25.80 to \$27.43.

Table 13. Average Charge for Installation of Cable Service for All Cable Operators

| <u>Type of Installation</u> | <u>July 2001</u> | <u>July 2002</u> | <u>Percent Change</u> | <u>Competitive Differential</u> | |
|-----------------------------|------------------|------------------|-----------------------|---------------------------------|------------------|
| | | | | <u>July 2001</u> | <u>July 2002</u> |
| Unwired home installation | \$42.06 | \$43.38 | 3.1% | 6.2% | 6.7% |
| Pre-wired home installation | \$29.43 | \$30.77 | 4.6% | 0.6% | 1.5% |
| Reconnection charge | \$25.80 | \$27.43 | 6.3% | 0.6% | 2.1% |

VI. CONCLUSION

40. We found that operators belonging to the competitive and noncompetitive groups both increased their average monthly rates by 8.2% for programming and equipment during the time period surveyed. We also found that the differential between the competitive and noncompetitive groups changed very slightly from 6.3% in 2001 to 6.4% in 2002. Over the year ending July 1, 2002, the average monthly rate per channel increased by 1.9% and by 1.2%, respectively, for operators in the competitive and noncompetitive groups.

41. Operators in both the competitive and noncompetitive groups continue to increase system capacity and, as a result, offer their subscribers more BST and CPST channels along with new services such as digital programming, Internet access, and cable telephony.

42. This report fulfills the Commission's annual statutory obligation to compare prices charged by cable operators facing effective competition with those of cable operators not facing effective competition for the delivery of basic service, other cable programming services, and equipment.

VII. ADMINISTRATIVE MATTERS

43. It is ORDERED that this Report be issued pursuant to authority contained in Section 623(k) of the Communications Act of 1934, as amended, 47 U.S.C. § 543(k).

FEDERAL COMMUNICATIONS COMMISSION

Marlene H. Dortch
Secretary

**ATTACHMENT 1
Sample Frame**

| <u>Sample Groups and Strata</u> | <u>Number of Systems</u> [†] | <u>Percent of Subscribers</u> ^{††} | <u>Sample Size</u> | <u>Survey Responses</u> | <u>Usable Surveys</u> |
|-------------------------------------|---|---|------------------------|-----------------------------|---------------------------|
| Competitive Group | | | | | |
| Local exchange carrier | 95 | 59.10% | 95 | 91 | 91 |
| Wireline overbuild | 37 | 13.74% | 37 | 31 | 31 |
| Low penetration | 168 | 13.49% | 94 | 86 | 85 |
| DBS overbuild | 42 | 13.05% | 42 | 41 | 41 |
| Municipal | 14 | 0.62% | 14 | 13 | 13 |
| Total | 356 | 100% | 282 | 262 | 261 |
| Noncompetitive Group | | | | | |
| Very large | 99 | 22.62% | 99 | 97 | 97 |
| Large | 169 | 24.59% | 109 | 105 | 105 |
| Medium | 888 | 33.82% | 153 | 139 | 139 |
| Small | 2,717 | 15.63% | 72 | 61 | 61 |
| Very small | 5,917 | 3.34% | 40 | 30 | 30 |
| Total | 9,790 | 100% | 473 | 432 | 432 |
| All Cable Systems | | | | | |
| Grand Total | 10,146 | 100% | 755 | 694 | 693 |

[†] A cable operator is defined in this Report on a system basis. For example, if a multiple system operator (“MSO”) has 10 cable systems, that MSO is considered to be 10 operators for the purpose of this report

^{††} This column shows the percent of cable subscribers in each stratum with, respectively, 6.1% and 93.9% of all cable subscribers in the competitive and noncompetitive groups.

ATTACHMENT 2
Average Monthly Rates

| <u>Element</u> | <u>All Operators Surveyed</u> | <u>Competitive Group</u> | <u>Noncompetitive Group</u> | <u>Amount Noncompetitive Exceeds Competitive *</u> | <u>Percent</u> |
|------------------------------------|-----------------------------------|------------------------------|---------------------------------|--|----------------|
| July 2002 | | | | | |
| BST | \$14.45 | \$14.09 | \$14.47 | \$0.38 | 2.7% |
| <i>Standard error</i> † | 0.62 | 0.70 | 0.61 | | |
| CPST | \$22.02 | \$20.25 | \$22.14 | \$1.89 | 9.3% |
| <i>Standard error</i> | 0.78 | 1.04 | 0.76 | | |
| Programming total | \$36.47 | \$34.34 | \$36.61 | \$2.27 | 6.6% * |
| <i>Standard error</i> | 0.45 | 0.76 | 0.43 | | |
| Equipment | \$3.64 | \$3.50 | \$3.65 | \$0.15 | 4.3% |
| <i>Standard error</i> | 0.16 | 0.21 | 0.16 | | |
| Programming & equipment | \$40.11 | \$37.84 | \$40.26 | \$2.42 | 6.4% * |
| <i>Standard error</i> | 0.50 | 0.88 | 0.47 | | |
| Channels | 62.7 | 62.9 | 62.7 | -0.2 | -0.3% |
| <i>Standard error</i> | 1.0 | 1.6 | 1.0 | | |
| Rate per channel | \$0.664 | \$0.637 | \$0.666 | \$0.029 | 4.6% |
| <i>Standard error</i> | 0.013 | 0.021 | 0.012 | | |
| Satellite channels | 46.3 | 47.9 | 46.3 | -1.6 | -3.3% |
| <i>Standard error</i> | 0.9 | 1.4 | 0.9 | | |
| Rate per satellite channel | \$0.908 | \$0.859 | \$0.912 | \$0.053 | 6.2% |
| <i>Standard error</i> | 0.027 | 0.036 | 0.026 | | |
| July 2001 | | | | | |
| BST | \$13.93 | \$13.41 | \$13.96 | \$0.55 | 4.1% |
| CPST | \$19.88 | \$18.44 | \$19.98 | \$1.54 | 8.4% |
| Programming total | \$33.81 | \$31.85 | \$33.94 | \$2.09 | 6.6% * |
| Equipment | \$3.25 | \$3.13 | \$3.26 | \$0.13 | 4.2% |
| Programming & equipment | \$37.06 | \$34.98 | \$37.20 | \$2.22 | 6.3% * |
| Channels | 59.0 | 59.9 | 58.9 | -1.0 | -1.7% |
| Rate per channel | \$0.656 | \$0.626 | \$0.658 | \$0.034 | 5.1% |
| Satellite channels | 43.0 | 45.4 | 42.9 | -2.5 | -5.5% |
| Rate per satellite channel | \$0.909 | \$0.851 | \$0.913 | \$0.062 | 7.3% |
| July 2000 | | | | | |
| BST | \$13.48 | \$12.79 | \$13.53 | \$0.74 | 5.8% |
| CPST | \$18.01 | \$16.97 | \$18.08 | \$1.11 | 6.5% |
| Programming total | \$31.49 | \$29.76 | \$31.61 | \$1.85 | 6.2% * |
| Equipment | \$2.95 | \$2.69 | \$2.96 | \$0.27 | 10.0% |
| Programming & equipment | \$34.44 | \$32.45 | \$34.57 | \$2.12 | 6.5% * |
| Channels | 56.2 | 57.0 | 56.2 | -0.8 | -1.4% |
| Rate per channel | \$0.645 | \$0.613 | \$0.647 | \$0.034 | 5.5% |
| Satellite channels | 40.6 | 42.8 | 40.6 | -2.2 | -5.4% |
| Rate per satellite channel | \$0.902 | \$0.840 | \$0.906 | \$0.066 | 7.9% |

† Standard errors for 2002 averages are also representative of those for the 2000 and 2001 averages.

* Statistically significant at 95% confidence level using a two-tailed test.

ATTACHMENT 3
Annual Percentages and 5-Year Compound Annual Rates

| Element | July 1995 | July 1996 | July 1997 | July 1998 | July 1999 | July 2000 | July 2001 | July 2002 | 5-year Averages [†] |
|---------------------------------|-----------|-----------|-----------|-----------------|------------------|------------------|------------------|------------------|------------------------------|
| All Operators Surveyed | | | | | | | | | |
| BST | n/a | n/a | \$11.57 | \$12.00 3.7% | \$12.70 5.8% | \$13.48 6.2% | \$13.93 3.3% | \$14.45 3.7% | 4.5% |
| CPST | n/a | n/a | \$14.49 | \$15.77 8.8% | \$17.02 7.9% | \$18.01 5.8% | \$19.88 10.4% | \$22.02 10.8% | 8.7% |
| Programming total | n/a | n/a | \$26.06 | \$27.77 6.6% | \$29.72 7.0% | \$31.49 6.50% | \$33.81 7.4% | \$36.47 7.9% | 7.0% |
| Equipment | n/a | n/a | \$2.42 | \$2.65 9.5% | \$2.76 4.2% | \$2.95 6.9% | \$3.25 10.2% | \$3.64 12.0% | 8.5% |
| Programming & equipment | \$24.34 | \$26.16 | \$28.48 | \$30.42 6.8% | \$32.48 6.8% | \$34.44 6.0% | \$37.06 7.6% | \$40.11 8.2% | 7.1% |
| Channels | 43.6 | 46.3 | 48.2 | 50.3 4.4% | 53.7 6.8% | 56.2 4.7% | 59.0 5.0% | 62.7 6.3% | 5.4% |
| Rate per channel | \$0.604 | \$0.618 | \$0.635 | \$0.645 1.6% | \$0.642 -0.5% | \$0.645 0.5% | \$0.656 1.7% | \$0.664 1.2% | 0.9% |
| Competitive Group | | | | | | | | | |
| BST | n/a | n/a | \$10.69 | \$11.12 4.0% | \$11.90 7.0% | \$12.79 7.4% | \$13.41 4.8% | \$14.09 5.1% | 5.7% |
| CPST | n/a | n/a | \$14.11 | \$15.00 6.3% | \$16.06 7.1% | \$16.97 5.8% | \$18.44 8.7% | \$20.25 9.8% | 7.5% |
| Programming total | n/a | n/a | \$24.80 | \$26.12 5.3% | \$27.96 7.0% | \$29.76 6.5% | \$31.85 7.0% | \$34.35 7.8% | 6.7% |
| Equipment | n/a | n/a | \$2.35 | \$2.59 10.2% | \$2.63 1.5% | \$2.69 2.3% | \$3.13 16.4% | \$3.50 11.8% | 8.3% |
| Programming & equipment | \$22.88 | \$25.42 | \$27.15 | \$28.71 5.7% | \$30.59 6.5% | \$32.45 6.1% | \$34.98 7.8% | \$37.84 8.2% | 6.9% |
| Channels | 38.0 | 48.8 | 53.2 | 54.0 1.5% | 54.5 0.9% | 57.0 4.6% | 59.9 5.1% | 62.9 5.0% | 3.4% |
| Rate per channel | \$0.670 | \$0.580 | \$0.550 | \$0.570 3.6% | \$0.600 5.3% | \$0.613 2.2% | \$0.626 2.1% | \$0.637 1.8% | 3.0% |
| Noncompetitive Group | | | | | | | | | |
| BST | n/a | n/a | \$11.63 | \$12.06 3.7% | \$12.75 5.7% | \$13.53 6.1% | \$13.96 3.2% | \$14.47 3.7% | 4.5% |
| CPST | n/a | n/a | \$14.51 | \$15.82 9.0% | \$17.08 8.0% | \$18.08 5.9% | \$19.98 10.5% | \$22.14 10.8% | 8.8% |
| Programming total | n/a | n/a | \$26.14 | \$27.88 6.7% | \$29.83 7.0% | \$31.61 6.0% | \$33.94 7.4% | \$36.61 7.9% | 7.0% |
| Equipment | n/a | n/a | \$2.42 | \$2.65 9.5% | \$2.77 4.5% | \$2.96 6.9% | \$3.26 10.1% | \$3.65 12.0% | 8.6% |
| Programming & equipment | \$24.43 | \$26.21 | \$28.56 | \$30.53 6.9% | \$32.60 6.8% | \$34.57 6.0% | \$37.20 7.6% | \$40.26 8.2% | 7.1% |
| Channels | 44.0 | 46.1 | 47.9 | 50.1 4.6% | 53.6 7.0% | 56.2 4.9% | 58.9 4.8% | 62.7 6.5% | 5.5% |
| Rate per channel | \$0.600 | \$0.620 | \$0.640 | \$0.650 1.6% | \$0.645 -0.8% | \$0.647 0.3% | \$0.658 1.7% | \$0.666 1.2% | 0.8% |
| BLS Consumer Price Index | | | | | | | | | |
| CPI | 152.5 | 157.0 | 160.5 | 163.2 1.7% | 166.7 2.1% | 172.8 3.7% | 177.5 2.7% | 180.1 1.5% | 2.3% |
| Cable CPI | 201.1 | 214.9 | 231.1 | 246.5 6.7% | 255.4 3.6% | 267.3 4.7% | 279.7 4.6% | 297.3 6.3% | 5.2% |

[†] The 5-year averages are compound annual rates, and are calculated as follows: (Jul. '02 avg. / Jul. '97 avg.)^{1/5} - 1. July 2000 through July 2002 data are from this Survey. Other results are from prior Surveys. See 17 FCC Rcd 6301 (2002); 16 FCC Rcd 4346 (2001); 15 FCC Rcd 10927 (2000); 14 FCC Rcd 8331 (1999); 12 FCC Rcd 22756 (1997); and 12 FCC Rcd 3239 (1997).

ATTACHMENT 4
Competitive Group, by Strata

| <u>Element</u> | <u>Wireline Overbuild</u> | <u>DBS Overbuild</u> | <u>LEC</u> | <u>Low Penetration</u> | <u>Municipal</u> |
|------------------------------------|-------------------------------|--------------------------|------------|----------------------------|------------------|
| July 2002 | | | | | |
| BST | \$16.37 | \$17.05 | \$12.33 | \$16.59 | \$14.35 |
| <i>Standard error</i> [†] | 1.22 | 1.12 | 0.46 | 0.79 | 1.60 |
| CPST | \$18.00 | \$17.23 | \$22.08 | \$17.89 | \$10.34 |
| <i>Standard error</i> | 1.77 | 1.91 | 0.65 | 1.10 | 2.33 |
| Programming total | \$34.37 | \$34.28 | \$34.41 | \$34.48 | \$24.69 |
| <i>Standard error</i> | 1.29 | 1.32 | 0.54 | 0.60 | 1.35 |
| Equipment | \$3.24 | \$2.77 | \$4.07 | \$2.08 | \$0.79 |
| <i>Standard error</i> | 0.33 | 0.35 | 0.18 | 0.24 | 0.42 |
| Programming & equipment | \$37.61 | \$37.05 | \$38.48 | \$36.56 | \$25.48 |
| <i>Standard error</i> | 1.45 | 1.59 | 0.62 | 0.70 | 1.52 |
| Channels | 60.9 | 53.9 | 67.6 | 53.4 | 50.4 |
| <i>Standard error</i> | 2.7 | 3.2 | 1.0 | 1.8 | 3.6 |
| Rate per channel | \$0.646 | \$0.776 | \$0.577 | \$0.762 | \$0.528 |
| <i>Standard error</i> | 0.034 | 0.043 | 0.011 | 0.033 | 0.036 |
| Satellite channels | 46.4 | 42.2 | 51.1 | 41.5 | 39.5 |
| <i>Standard error</i> | 2.3 | 2.6 | 0.9 | 1.5 | 3.2 |
| Rate per satellite channel | \$0.864 | \$1.105 | \$0.771 | \$1.010 | \$0.679 |
| <i>Standard error</i> | 0.052 | 0.114 | 0.017 | 0.052 | 0.047 |
| July 2001 | | | | | |
| BST | \$15.52 | \$16.06 | \$11.71 | \$16.16 | \$13.75 |
| CPST | \$16.29 | \$15.09 | \$20.32 | \$16.01 | \$10.09 |
| Programming total | \$31.81 | \$31.15 | \$32.03 | \$32.23 | \$23.84 |
| Equipment | \$2.97 | \$2.35 | \$3.65 | \$1.85 | \$0.79 |
| Programming & equipment | \$34.78 | \$33.50 | \$35.68 | \$34.08 | \$24.63 |
| Channels | 57.8 | 46.6 | 66.2 | 48.4 | 47.9 |
| Rate per channel | \$0.636 | \$0.811 | \$0.548 | \$0.779 | \$0.532 |
| Satellite channels | 43.8 | 35.7 | 49.9 | 36.9 | 37.1 |
| Rate per satellite channel | \$0.853 | \$1.183 | \$0.732 | \$1.053 | \$0.690 |
| July 2000 | | | | | |
| BST | \$14.98 | \$15.15 | \$11.12 | \$15.53 | \$13.37 |
| CPST | \$14.84 | \$13.43 | \$18.83 | \$14.77 | \$9.78 |
| Programming total | \$29.82 | \$28.58 | \$29.95 | \$30.35 | \$23.15 |
| Equipment | \$2.44 | \$2.14 | \$3.12 | \$1.68 | \$0.80 |
| Programming & equipment | \$32.26 | \$30.72 | \$33.07 | \$32.04 | \$23.95 |
| Channels | 52.7 | 45.3 | 62.4 | 49.5 | 50.8 |
| Rate per channel | \$0.628 | \$0.854 | \$0.535 | \$0.715 | \$0.477 |
| Satellite channels | 39.7 | 33.9 | 46.9 | 37.1 | 38.9 |
| Rate per satellite channel | \$0.845 | \$1.275 | \$0.714 | \$0.987 | \$0.624 |

[†] Standard errors for 2002 averages are also representative of those for the 2000 and 2001 averages.

ATTACHMENT 5
Noncompetitive Group, by Strata

| <u>Element</u> | <u>Very Large</u> | <u>Large</u> | <u>Medium</u> | <u>Small</u> | <u>Very Small</u> |
|------------------------------------|-------------------|--------------|---------------|--------------|-------------------|
| July 2002 | | | | | |
| BST | \$11.89 | \$11.38 | \$15.05 | \$20.20 | \$22.02 |
| <i>Standard error</i> [†] | 0.33 | 0.28 | 0.70 | 1.13 | 1.53 |
| CPST | \$25.55 | \$25.48 | \$21.75 | \$15.59 | \$9.19 |
| <i>Standard error</i> | 0.43 | 0.46 | 0.78 | 1.41 | 2.07 |
| Programming total | \$37.44 | \$36.86 | \$36.80 | \$35.79 | \$31.21 |
| <i>Standard error</i> | 0.37 | 0.43 | 0.28 | 0.62 | 1.15 |
| Equipment | \$4.45 | \$4.34 | \$3.46 | \$2.46 | \$0.65 |
| <i>Standard error</i> | 0.12 | 0.12 | 0.15 | 0.29 | 0.26 |
| Programming & equipment | \$41.89 | \$41.20 | \$40.26 | \$38.25 | \$31.86 |
| <i>Standard error</i> | 0.40 | 0.45 | 0.35 | 0.76 | 1.24 |
| Channels | 68.9 | 65.9 | 63.29 | 53.0 | 38.1 |
| <i>Standard error</i> | 0.8 | 0.9 | 0.8 | 1.6 | 3.2 |
| Rate per channel | \$0.613 | \$0.636 | \$0.651 | \$0.753 | \$0.979 |
| <i>Standard error</i> | 0.007 | 0.010 | 0.010 | 0.021 | 0.073 |
| Satellite channels | 49.8 | 48.3 | 47.3 | 42.2 | 29.2 |
| <i>Standard error</i> | 0.7 | 0.8 | 0.7 | 1.4 | 2.9 |
| Rate per satellite channel | \$0.853 | \$0.880 | \$0.878 | \$0.957 | \$1.667 |
| <i>Standard error</i> | 0.010 | 0.019 | 0.015 | 0.031 | 0.310 |
| July 2001 | | | | | |
| BST | \$11.40 | \$10.90 | \$14.76 | \$19.26 | \$21.12 |
| CPST | \$23.30 | \$23.41 | \$19.32 | \$13.63 | \$8.45 |
| Programming total | \$34.70 | \$34.31 | \$34.08 | \$32.89 | \$29.57 |
| Equipment | \$3.92 | \$3.86 | \$3.09 | \$2.31 | \$0.51 |
| Programming & equipment | \$38.62 | \$38.17 | \$37.17 | \$35.20 | \$30.08 |
| Channels | 65.6 | 63.4 | 58.9 | 47.2 | 34.7 |
| Rate per channel | \$0.595 | \$0.613 | \$0.647 | \$0.779 | \$0.976 |
| Satellite channels | 46.9 | 45.8 | 43.5 | 36.9 | 26.2 |
| Rate per satellite channel | \$0.837 | \$0.862 | \$0.886 | \$1.006 | \$1.652 |
| July 2000 | | | | | |
| BST | \$1.16 | \$10.46 | \$14.17 | \$18.97 | \$20.25 |
| CPST | \$21.41 | \$21.44 | \$17.22 | \$12.04 | \$7.68 |
| Programming total | \$32.57 | \$31.90 | \$31.39 | \$31.01 | \$27.93 |
| Equipment | \$3.55 | \$3.52 | \$2.82 | \$2.10 | \$0.49 |
| Programming & equipment | \$36.12 | \$35.42 | \$34.21 | \$33.11 | \$28.42 |
| Channels | 63.8 | 60.4 | 56.4 | 43.2 | 32.6 |
| Rate per channel | \$0.573 | \$0.594 | \$0.632 | \$0.808 | \$0.931 |
| Satellite channels | 45.1 | 43.0 | 41.2 | 33.1 | 24.2 |
| Rate per satellite channel | \$0.815 | \$0.849 | \$0.879 | \$1.060 | \$1.566 |

[†] Standard errors for 2002 averages are also representative of those for the 2000 and 2001 averages.

ATTACHMENT 6
Operators' Explanation for Changes
in Average Monthly Rates for Programming Services (BST and CPST1 only)

| Nature of Cost Change | Change in Monthly Rate, July 1, 2000 to July 1, 2001 | | | | Change in Monthly Rate, July 1, 2001 to July 1, 2002 | | | |
|---|---|-----------------------------|------------------------------------|-----------------------------|---|-----------------------------|------------------------------------|-----------------------------|
| | Competitive Group | | Noncompetitive Group | | Competitive Group | | Noncompetitive Group | |
| | <u>Amount</u> <u>Attributed</u> | <u>% of</u> <u>Total</u> | <u>Amount</u> <u>Attributed</u> | <u>% of</u> <u>Total</u> | <u>Amount</u> <u>Attributed</u> | <u>% of</u> <u>Total</u> | <u>Amount</u> <u>Attributed</u> | <u>% of</u> <u>Total</u> |
| Program licenses & copyright fees: existing programming <i>Standard error</i> | \$0.91 <i>0.10</i> | 43.9% | \$1.09 <i>0.10</i> | 46.2% | \$1.13 <i>0.11</i> | 46.5% | \$1.37 <i>0.09</i> | 51.3% |
| Program licenses & copyright fees: new programming <i>Standard error</i> | \$0.38 <i>0.08</i> | 17.8% | \$0.31 <i>0.08</i> | 13.5% | \$0.37 <i>0.08</i> | 14.7% | \$0.39 <i>0.10</i> | 14.8% |
| Upgrade to distribution plant and headend <i>Standard error</i> | \$0.34 <i>0.13</i> | 16.0% | \$0.11 <i>0.05</i> | 4.9% | \$0.34 <i>0.12</i> | 13.3% | \$0.15 <i>0.05</i> | 5.7% |
| General inflation unaccounted for elsewhere <i>Standard error</i> | \$0.35 <i>0.06</i> | 16.7% | \$0.39 <i>0.04</i> | 16.6% | \$0.30 <i>0.05</i> | 12.2% | \$0.35 <i>0.03</i> | 13.3% |
| Other cost increases or decreases <i>Standard error</i> | \$0.10 <i>0.07</i> | 5.0% | \$0.36 <i>0.11</i> | 15.8% | \$0.35 <i>0.13</i> | 14.1% | \$0.31 <i>0.09</i> | 11.6% |
| Unrelated to cost change <i>Standard error</i> | (\$0.01) <i>0.09</i> | (0.4%) | \$0.03 <i>0.06</i> | 1.0% | \$0.03 <i>0.10</i> | 0.7% | \$0.09 <i>0.08</i> | 3.2% |
| Unexplained change (Non-response) <i>Standard error</i> | \$0.02 <i>0.07</i> | 1.0% | \$0.04 <i>0.04</i> | 2.0% | (\$0.03) <i>0.03</i> | (1.5%) | \$0.01 <i>0.04</i> | 0.1% |
| Total change (Sum of above) <i>Standard error</i> | \$2.09 <i>0.21</i> | 100% | \$2.33 <i>0.19</i> | 100% | \$2.49 <i>0.25</i> | 100% | \$2.67 <i>0.17</i> | 100% |

ATTACHMENT 7
Average Number of Channels
By Category of Programming[†]

| <u>Category</u> | <u>Competitive Group</u> | | | | <u>Noncompetitive Group</u> | | | |
|--|---------------------------|------------------|----------------------|----------------|-----------------------------|------------------|----------------------|----------------|
| | <u>Number of Channels</u> | | <u>Annual Change</u> | | <u>Number of Channels</u> | | <u>Annual Change</u> | |
| | <u>July 2001</u> | <u>July 2002</u> | <u>Number</u> | <u>Percent</u> | <u>July 2001</u> | <u>July 2002</u> | <u>Number</u> | <u>Percent</u> |
| BST and Major CPST Channel Lineup | | | | | | | | |
| Local broadcast | 11.0 | 11.2 | 0.2 | 1.8% | 11.4 | 11.7 | 0.3 | 2.6% |
| <i>Standard error</i> | 0.4 | 0.5 | | | 0.4 | 0.4 | | |
| Public, educational, and government | 2.1 | 2.2 | 0.1 | 4.8% | 2.8 | 2.8 | 0.0 | 0.0% |
| <i>Standard error</i> | 0.2 | 0.2 | | | 0.2 | 0.2 | | |
| Leased access | 0.8 | 0.8 | 0.0 | 0.0% | 0.8 | 0.9 | 0.1 | 12.5% |
| <i>Standard error</i> | 0.1 | 0.2 | | | 0.1 | 0.1 | | |
| Other local | 1.0 | 1.2 | 0.2 | 20.0% | 1.0 | 1.0 | 0.0 | 0.0% |
| <i>Standard error</i> | 0.2 | 0.2 | | | 0.1 | 0.1 | | |
| Satellite sports | 4.5 | 4.6 | 0.1 | 2.2% | 4.0 | 4.3 | 0.3 | 7.5% |
| <i>Standard error</i> | 0.2 | 0.2 | | | 0.1 | 0.1 | | |
| Other satellite | 40.5 | 42.9 | 2.3 | 5.7% | 38.9 | 42.0 | 2.1 | 8.0% |
| <i>Standard error</i> | 1.2 | 1.2 | | | 0.8 | 0.8 | | |
| Total of above | 59.9 | 62.9 | 2.9 | 4.8% | 58.9 | 62.7 | 3.8 | 6.5% |
| <i>Standard error</i> | 1.6 | 1.6 | | | 1.0 | 1.0 | | |
| Other Analog Channels | | | | | | | | |
| Other Analog^{††} | 9.2 | 7.4 | -1.9 | -20.4% | 9.8 | 7.4 | -2.4 | -24.5% |
| <i>Standard error</i> | 0.9 | 0.8 | | | 0.9 | 0.8 | | |
| Total analog | 69.2 | 70.3 | 1.1 | 1.6% | 68.7 | 70.1 | 1.4 | 2.0% |
| <i>Standard error</i> | 2.0 | 1.9 | | | 1.3 | 1.3 | | |

[†] Excluding music and other non-video channels. ^{††} Includes premium, pay-per-view, and mini-tiers.

**STATEMENT OF
COMMISSIONER MICHAEL J. COPPS,
DISSENTING**

Re: Implementation of Section 3 of the Cable Television Consumer Protection and Competition Act of 1992.

I respectfully dissent from today's Report on cable rates. At a time of significant increases in cable rates year after year, consumers deserve a better effort from the FCC. I do not believe that the Commission has adequately fulfilled its statutory responsibility under Section 623(k). For this Report, the Commission conducts even less analysis than it has in the past and does not audit any of its results notwithstanding problems with our methodology disclosed in a recent report from the General Accounting Office.

The data show the continuation of a troubling trend -- rates increased 8.2 percent in one year, significantly more than inflation and more than the average over the preceding five years. We hear from consumers who are fed up with continual increases in their cable bills. When consumers keep getting hit in the pocketbook year after year, we must commit the resources necessary to gather the information so we can make informed decisions to ensure that consumers are protected.

In section 623(k), Congress gave the Commission the charge to publish annually statistical reports on the average rates for basic cable service, other cable programming, and cable equipment. Congress directed the Commission to compare those rates in areas that are subject to effective competition with areas that are not subject to such competition. Congress further provided definitions of when effective competition exists.

In adopting this section, Congress envisioned that the Commission, as the government's expert agency, would actively pursue information each year on cable rates and publish statistical reports. Here, we have not delved as deeply as Congress expects. The data we have and the analysis derived from it are, for me, insufficient.

To carry out its responsibility under the statute, the Commission sent surveys to a sample of cable operators asking them to provide their rates for cable services and equipment, and to attribute any increases in rates to a number of different factors including costs of programming. The operators attributed over 60 percent of their rate increases to programming costs, yet the Commission does not conduct even minimal audits to assure the accuracy of these data.

The Report states that there may be areas presumed to have effective competition but in which the competitive situation subsequently changed. These changed circumstances could account for some of the discrepancies with the General Accounting Office (GAO). In a report issued in October 2002, the GAO used the Commission's data but undertook additional analyses to gauge the actual state of competition. The GAO found instances where the Commission's data were inaccurate. The majority recognizes the shortcomings of our data, but nonetheless concludes that we have carried out our obligations under the Act. And again, the Commission fails to conduct even the most minimal of audits to ensure the accuracy of the data, including the actual extent of competition.

I am further disappointed that the Commission failed to undertake statistical analyses as it has in past Reports. Previously, the Commission conducted econometric analyses of such important issues as the impact on cable rates of clustering, DBS, and cable overbuilds. Such analyses were useful to enable the Commission to determine whether specific factors influence rates, and to measure the extent of that influence. For example, the Commission conducted regression analyses to determine whether the number of channels offered influences the rate charged. It also used econometric analysis to assess whether the demand and price charged for cable service were sensitive to the type of competition faced by cable operators. To carry out Congress' directive for statistical reports on cable rates, we would have preferred not only to continue the efforts of the past, but to expand the analyses to include such areas as the impact of local-into-local DBS offerings on cable rates.

The Commission needs to be more proactive in its cable reports. I urge the Commission to adopt a specific plan to obtain data, conduct audits, and undertake the analyses that can provide a fuller and more accurate picture of cable rates. Such an effort is necessary to fulfill our statutorily mandated responsibilities.

**STATEMENT OF
COMMISSIONER JONATHAN ADELSTEIN,
CONCURRING**

Re: Implementation of Section 3 of the Cable Television Consumer Protection and Competition Act of 1992.

More than a decade after the Cable Television Consumer Protection and Competition Act of 1992, questions over escalating cable rates and the impact on consumers remain. Despite these concerns, in this annual Report to Congress the Commission fails to conduct the full analysis it has performed in previous years, even as questions about the reliability of our data mount. I believe that our information collection and analysis could be strengthened and adhere more fully to the intentions of Congress in section 623(k) of the Communications Act. Given the commitment to improve our information collection and analysis in future reports, which I hope will set us on a path of providing Congress with a more complete understanding of cable rates and the effect of competition, I concur.

Congress instructed the Commission each year to collect information on cable rates and publish a statistical report. Specifically, section 623(k) directs the Commission to publish statistical reports on the average rates for basic cable service, other cable programming, and cable equipment, and to compare those rates in areas that are subject to effective competition with the rates in areas not subject to such competition.

Regretfully, this year's Report omits statistical analyses conducted in previous years. The Commission traditionally has undertaken econometric analyses to determine whether specific factors influence rates, and to measure the extent of that influence. Such analyses would isolate and account for certain factors such as the number of channels, the impact of clustering and the type of competition faced by cable operators. For example, one question relevant to today's cable environment is the effect on competition for cable from local-into-local DBS service. Analyzing this and other factors is related to our statutory mandate and would provide a more complete picture to the Congress in setting cable policy, and to the Commission in implementing it. I appreciate that the Commission will endeavor to conduct such analyses in future reports.

The Commission's methodology also could be strengthened to gather and ensure more reliable information. To meet its statutory mandate, the Commission directs certain cable operators to respond to a price survey questionnaire. Several of the questions ask the operator to estimate answers and allocate those estimates among various factors. GAO has criticized the Commission's instruction on the portion of the survey covering the cost factors underlying rate increases. In its own investigation, GAO found that cable companies made varying assumptions on how to complete the FCC survey, and even adjusted one or more cost factors in order to meet the Commission's requirement that cost and non-cost factors sum to the reported rate increase.

¹ I welcome the Commission's commitment to revise its methodology to obtain more reliable information from cable operators, particularly in the critical area of programming increases.

¹ Statement of William B. Shear, Acting Director Physical Infrastructure, before the Senate Committee on Commerce, Science, and Transportation, GAO-03-742T (May 6, 2003), at 7 ("Every franchise that we spoke with said it was unclear what FCC expected for at least one of the six factors . . . 73 of the 100 franchises said that the instructions were insufficient."); at Table 1 (identifying that some companies took a standard company-wide approach to estimating programming costs while others estimated the costs for each individual franchise, and that some companies combined cost changes for all programming without separating existing from new programs).

One way for the Commission to ensure the reliability of the information presented, as well as the reliability of the Commission's survey methodology, is to conduct audits. For example, for this year's Report, cable operators attributed an average of 65.8 percent of their rate increases to programming costs, yet the Commission has not conducted even minimal audits to ensure the accuracy of this information. In rough calculations using this figure, if programming costs comprise about 30 percent of total costs,² and rates went up an average of 8.2 percent, this would imply that all programming costs went up an average of 17.9 percent, which appears to be an unusually high increase. Conducting even minimal audits would likely lead to a more accurate assessment of the cost factors underlying cable rate increases.

To ensure that the Commission's annual report on cable rates is providing reliable and useful information for Congress and the Commission on the causes of rate increases and on the competitive status in video markets, the Commission should gather more reliable information, conduct more statistical analyses, and consider conducting audits. Anticipating improvement in future reports, I concur with this year's Report.

² See Testimony of James O. Robbins, President and CEO, Cox Communications, before the Senate Committee on Commerce, Science, and Transportation (May 6, 2003).