

information services will boost the HSD industry and will change the nature of consumer electronics. If the industry markets its products correctly, consumers will see digital as an evolution and will not be overwhelmed by the pace of change.

The process of integrating digital technologies has laid the groundwork for a competitive, cross-licensed, multivendor environment. In fact, HBO believes the digital equipment market will prove efficient and highly competitive. Competitive pressure already is building among television networks, cable operators, and HSD providers seeking to multiply their services.²⁷ Ideally, that pressure will bring the cost of multi-channel digital IRDs very close to their analog counterparts. Manufacturers are already competing to sell technologies to deliver services to consumers and to commercial affiliates via satellite and cable. Thus far, the major vendors are GIC/AT&T, Scientific-Atlanta, Inc., Thomson (through the RCA and GE brands) and Philips Consumer Electronics. One major equipment purchaser, TCI, has stated that its recent agreement with GIC/AT&T requires the vendors to cross-license their technologies and to license competitive manufacturers.²⁸ Accordingly, there is every indication that the marketplace is moving to ensure a competitive environment for new digital equipment, and there

²⁷ "TCI Orders General Instrument Compression, Leaves Door Open for Competitors," Communications Daily, December 3, 1992 at 1.

²⁸ Id. at 21.

is no suggestion of the need for government intervention at this stage.

HBO agrees with the Commission's assessment that there will be a lengthy transition from analog to digital.²⁹ To some extent, the length of the transition will depend upon the price competitiveness and continued security of analog C-Band equipment. HBO does not believe, however, that the consumer will be faced with incompatible systems or forced to abandon analog equipment prematurely. Programmers have significant incentives not to cease analog transmission. For example, there is currently an installed base of approximately 25,000 commercial analog receive systems on HBO commercial networks and more than 3.5 million HSD analog systems. Thus, there exists a strong financial disincentive for HBO or any other programmer to abandon these established customers.

As the U.S. television system gradually migrates to digital, there are essentially two ways to ensure that existing analog services are maintained until a complete transition is accomplished. One way is to simulcast existing analog services along with digital for a sufficient period of time until digital equipment is pervasive. Three years ago, cable television and broadcast networks committed substantial resources to obtain another 12-year generation of satellite

²⁹ See NOI at ¶ 24.

transmission capacity.³⁰ The program distributors, therefore, should possess sufficient capacity to transmit analog services for as long as marketplace demand justifies the provision of these services.

Displacement also is unlikely to occur because C-Band equipment manufacturers will have incentives to offer products that will receive the large number of existing analog channels plus future digital channels. Marketplace forces will cause this "hybrid" equipment to be offered at as low a price as possible in order to compete with other systems, such as Hughes' high-power DBS. Initially, HBO is requiring its digital compression vendors to supply IRDs with both digital and analog capability. Over time, as more programming is offered digitally, C-Band equipment manufacturers may find demand for digital-only equipment accelerating without any noticeable disruption to analog DTH subscribers.

Thus, although it is important for the Commission to consider at an early stage any potential problems associated with the analog to digital transition, it does not appear that regulatory intervention is warranted at this time. The natural incentives of industry participants will ensure an

³⁰ "Digital Compression Now Arriving on the Fast Track," Broadcasting, July 27, 1992 at 40-42.

orderly transition, and evidence indicates that the process already is well underway.³¹

CONCLUSION

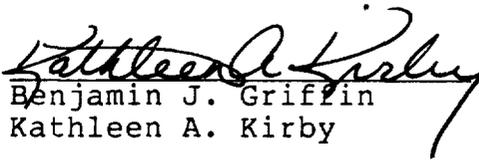
The HSD industry is providing and will continue to provide consumers with an increasing range of choices in terms of both reasonably priced programming and reception equipment. HBO favors competition in the HSD equipment industry, but the benefits of intra-VC II competition must be weighed against the security risks any new technology poses, the transmission capacity that will be required to carry competing authorization data streams, and the potential for consumer confusion. HBO submits that the dangers associated with distribution of an encryption system that continues to use a data stream based on VC II technology clearly outweigh any potential intra-VC II competition that such a system would bring. Moreover, HBO believes that the Commission should adopt a forward-looking approach and recognize that increasing competition in the analog environment, while important, is likely to be of relatively little long-term consequence. As the television distribution industry increasingly moves to digital technology, developing and ensuring a smooth transition to a competitive digital

³¹ The Commission also seeks comment on the extent to which consumers might be required to purchase multiple decoders, and whether there might be a place for a standard decoder interface. NOI at ¶ 25. HBO has no objection to a standard decoder interface and believes that multipoint (or multi-smart card slot) IRDs will develop if the market supports the incremental cost.

marketplace will be of primary importance. Evidence to date suggests that this transition is progressing smoothly, without the need for regulatory management.

Respectfully submitted,

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