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FEDERAL COMMUNICATIONS COMMISSION
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In the Matter of	)	
	)	
Annual Assessment of the Status of	)	CS Docket No. 98-102
Competition in Markets for the	)	
Delivery of Video Programming	)	

COMMENTS OF THE NATIONAL CABLE TELEVISION ASSOCIATION

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July 31, 1998

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COMMENTS OF THE NATIONAL CABLE TELEVISION ASSOCIATION

The National Cable Television Association ("NCTA") hereby submits its comments on the Notice of Inquiry in the above-captioned proceeding. NCTA is the principal trade association representing the cable television industry in the United States. Its members include the owners and operators of cable systems serving more than 90 percent of the nation's cable subscribers, most cable program networks, and cable equipment suppliers.

INTRODUCTION AND SUMMARY

Much will be said in this proceeding by those who want the government to return to the discredited road of cable price regulation – or who seek certain regulatory advantages. But one overriding fact should stand out as the Commission prepares its Fifth Annual Report on competition in the video marketplace: <u>In no other communications market has competition ever grown so rapidly as it has in the video marketplace during the past five years.</u>

Five years ago, cable's multichannel competitors served approximately three million subscribers. Today, they serve more than 12 million – a 300% increase – which represents more than 15% of all subscribers to multichannel video services.

In particular, direct broadcast satellite ("DBS") service has continued to grow exponentially and is now a strong, full-fledged competitor. Last year, the Commission expressed some concern that DBS, although growing by leaps and bounds, might soon hit a plateau. The

Commission suggested that even though DBS already has the capacity to serve subscribers throughout the nation and to add subscribers at virtually no marginal cost, DBS's growth might be limited by its inability to provide local broadcast signals, or by the up-front equipment costs incurred by DBS subscribers. In that case, according to the Commission, DBS might only be a "high end" product or be limited to areas unserved by cable.

But it is becoming increasingly clear that this is not the case and that, as the Department of Justice has concluded, DBS and cable compete in the same product market and are viewed by consumers as "similar and to a large degree substitutable" products:[1]

- DBS subscriptions, far from tapering off, increased once again by more in the past year than in the year before. High-powered DBS, which launched only four years ago, added almost 1.9 million new subscribers in the past year and now serves more than 5 million subscribers nationwide.
- Surveys indicate that consumers do not see the inability to obtain local broadcast signals from DBS as a significant impediment to taking DBS service.
- The up-front costs of subscribing to DBS are diminishing, not only because equipment production costs have declined but also because DBS providers are leasing equipment instead of requiring subscribers to purchase their equipment in advance. In fact, these up-front costs are now comparable to the cost of a low-priced VCR.
- DBS has recently received additional marketing boosts from the decision of two large Regional Bell Operating Companies (Bell Atlantic and SBC) to market DBS to

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1 *United States v. Primestar, Inc.*, No. 1: 98CV01193, Complaint, ¶ 63 (D.D.C. May 12, 1998) (emphasis added).

their telephone customers, and the decision of MMDS and SMATV operators to use DBS to provide video programming service to residents of multiple dwelling units ("MDUs").

DBS, of course, is not the only alternative provider of video programming services. In the last year, the Commission has taken steps to boost the competitive vitality of MMDS operators and enhance the ability of alternative providers to replace incumbent cable operators in the already competitive multiple dwelling unit ("MDU") market. Also, although some local telephone companies have delayed or rethought their plans to enter the multichannel video marketplace, others – such as Ameritech, BellSouth and SNET – are proceeding full speed ahead. So have several aggressive new competitors, such as RCN and Knology, who are providing video services along with telephone and Internet services, often in partnership with electric utilities. In addition, a number of municipal utilities are entering the video marketplace.

The increasingly competitive marketplace in which cable operators compete has also continued to spur substantial investment in better service. To retain and add subscribers, operators have continued to upgrade the quality and attractiveness of their product. Investment in new and existing programming services – both national and local – has continued to grow to meet the wide-ranging interests and needs of viewers. And so has investment in new technical facilities, which make it possible to enhance the quality and quantity of services. Cable operators continue to upgrade their customer service, as well.

The industry's customer service initiatives and guarantees, along with its investment in programming and facilities, are what one expects in a competitive marketplace. They represent efforts to offer consumers the package of services that, dollar for dollar, satisfies their needs and demands better than their competitors.

Marketplace decisions regarding how best to package programming services – whether in tiers, mini-tiers, or à la carte offerings – increasingly reflect the same competitive imperatives. Virtually all multichannel video programming distributors have found that consumer demand is best met by offering most services in bundled tiers, while providing some movie and sports packages and special events on a per-channel or per-program basis. Many popular services (such as The Disney Channel and regional sports networks) that used to be available only on an à la carte basis for as much as ten dollars a month are now offered by many cable and DBS operators as part of their non-premium tiers. While this increases the costs – and, therefore, the retail price – of such tiers, it provides much better value (and, in many cases, reduces the total monthly bills) for consumers.

Not only has competition in the provision of multichannel video programming flourished in the past year, but also the much-anticipated convergence of voice, video and data providers has made major progress in the past year. And this convergence, sparked by the explosive growth of Internet technology and services, means that the steady trend towards full, effective competition in a single, broadband digital marketplace is irreversible. The marketplace for broadband services includes not only established video programming providers but also local exchange companies, long distance companies and Internet service providers, all of whom will compete with one another – directly or through partnerships – to be full-service providers of video, voice and data services to consumers.

As Chairman Kennard has recently made clear, the investment of cable operators, local exchange companies, long distance companies and Internet service providers in the upgrading of their facilities to compete in the provision of a full array of digital services will benefit *all* consumers:

> But what does this mean for the average American sitting at home? Should the public be excited about the explosion in data transmission and the expansion of bandwidth capacity? You bet they should. Because when we can harness this new technology and put it to work in living rooms across the country, we will open up exciting new horizons for the American people – new horizons for entertainment, information, and communications services for all Americans.[2]

Cable operators have a major role in making this vision come true. They must work to retain the loyalty of today's customers by upgrading and delivering good value the quality of video programming services in the face of competition from DBS and other video providers. They must upgrade their bandwidth capacity in order to compete effectively with full-service entertainment, information and communications services. By investing and improving to meet growing video competition and to position themselves to compete in an era of convergence, cable is doing precisely what Congress envisioned when it in enacted the Telecommunications Act of 1996.

I. STRUCTURAL INDICATIONS OF COMPETITION.

A look at the numbers is enough to show that competition in the video marketplace is <u>established</u>, that it is <u>growing steadily</u>, and that the movement towards a fully competitive market is <u>irreversible</u>. In many respects, the acceleration of this trend in recent years is primarily attributable to the rapid emergence of DBS as a strong, effective competitor throughout the nation. DBS is not merely a "high-end," niche alternative. It is targeting cable customers with competitive packages of programming.

But competition to incumbent cable operators is not limited to DBS. While not all local telephone companies have chosen to compete with cable operators in their telephone service

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[2] "A Broadband Vision for America," Remarks by Chairman Kennard to Federal Communications Bar Association, June 24, 1998.

areas by deploying traditional cable systems, some – like Ameritech and SNET – have established themselves as long-term, head-to-head wireline competitors. Another new class of competitor – such as RCN and Knology – are entering local markets, often in partnership with established utility companies, to provide full-service packages including video.

Meanwhile, operators of SMATVs and private cable systems continue to compete vigorously to serve multiple dwelling units and their residents. And MMDS systems continue to compete (in some cases with telephone company backing) and intend to increase their presence with the advent of digital technology.

A. The Overall Trends and Numbers.

The numbers this year again show that cable's competitors are gaining market share at a steady rate. During each of the last two years, cable's share of the multichannel video programming distribution market, as measured by subscribership, has declined by approximately two percentage points. Two years ago, the Commission found that cable served approximately 89% of all MVPD subscribers. Last year, cable's share was down to 87.1%. And this year, it has further declined to 84.49%:

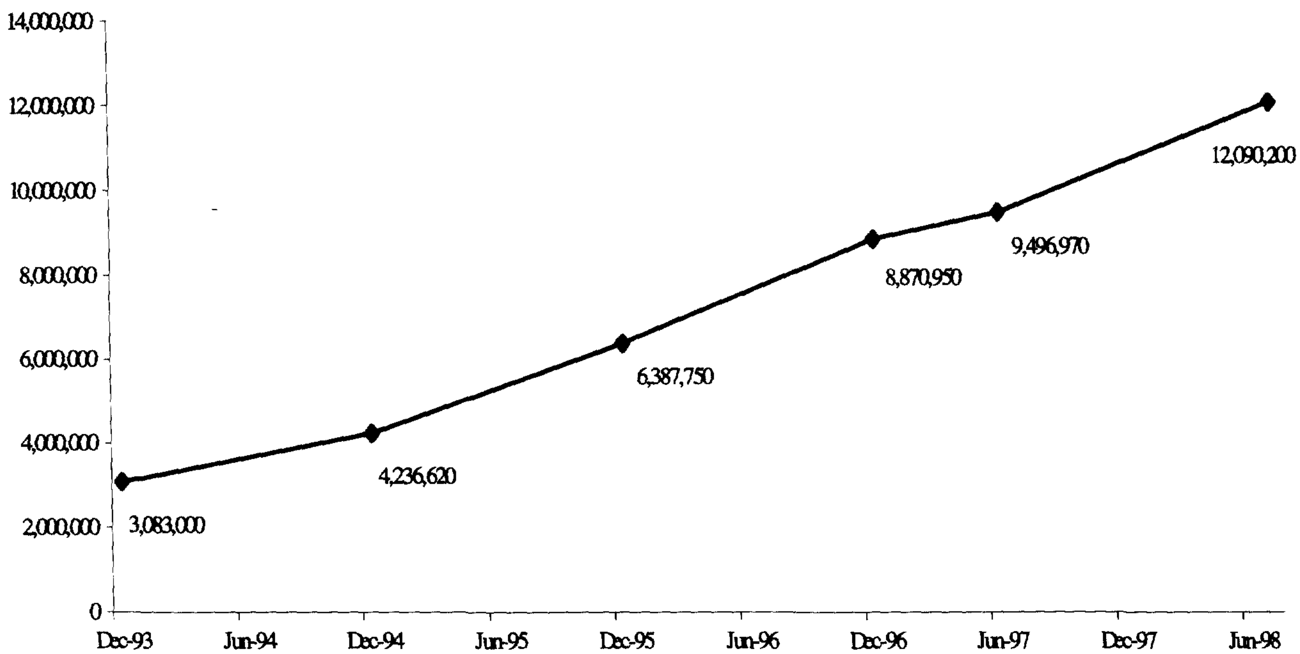
Analysis of Market Share of Multichannel Video Program Distributors (MVPDs)
July 1998

[redacted]		
DBS	7.25	9.31%
[redacted]		
MMDS	1.57	2.01%
[redacted]		
Local Telephone Companies	0.30	0.38%
[redacted]		
Total Multichannel Subscribers	77.95	100.00%

Source: A.C. Nielsen, Paul Kagan Associates, *Marketing New Media*, May 18, 1998 at 4, SkyReport; *CableWorld*

In terms of absolute numbers of subscribers, the two percent that have been captured each year by cable's competitors represent remarkable growth. Between December 1993 and June 1997, subscribership of cable's competitors increased from barely 3 million to almost 9.5 million. Since then, it has increased by another 2.6 million.

Growth in Non-Cable MVPD Households December 1993 – July 1998



Source: December 93-June 1997: FCC Fourth Annual Report at Appendix E, July 1998: NCTA estimate (See table above).

This appears to be a steady, irreversible trend. Indeed, a recent study by The Strategis Group projects that DBS alone "will continue strong growth and secure 22% of the multichannel video market by 2003."[3] And "SkyReport, a monthly satellite TV industry newsletter, predicts

3 "Promise of Local Channels Will Not Significantly Impact Industry Growth," Press Release, July 21, 1998, www.strategisgroup.com/press/DBS2.html.

that the number of digital satellite homes will rise from 6.5 million today to at least 15.2 million by 2002."[4]

B. DBS

The lion's share of the increase in MVPD subscribership is attributable to DBS, which has rapidly established itself as a direct competitor to cable. The costs of subscribing to DBS – both the fees for the programming and the up-front equipment costs – have plummeted. It offers a large number of channels that include virtually all the most popular and widely carried national cable satellite networks, as well as some programming services (such as DirecTV's exclusive major league sports packages) that cannot be carried by local cable systems. And its inability to carry the local broadcast stations that are required to be carried on reported basic cable tiers is not viewed by potential subscribers as a significant reason to subscribe.

1. <u>DBS's Growth Is Accelerating</u>.

As illustrated below, DBS subscribership is not only increasing every year, but also each year's increase has been greater than the previous year's:

[redacted]	New Subscribers to High-Power DBS
	650,000
	1,025,000
	1,605,000
	1,857,000

Source: Media Business Corp., *SkyTrends* July 1998

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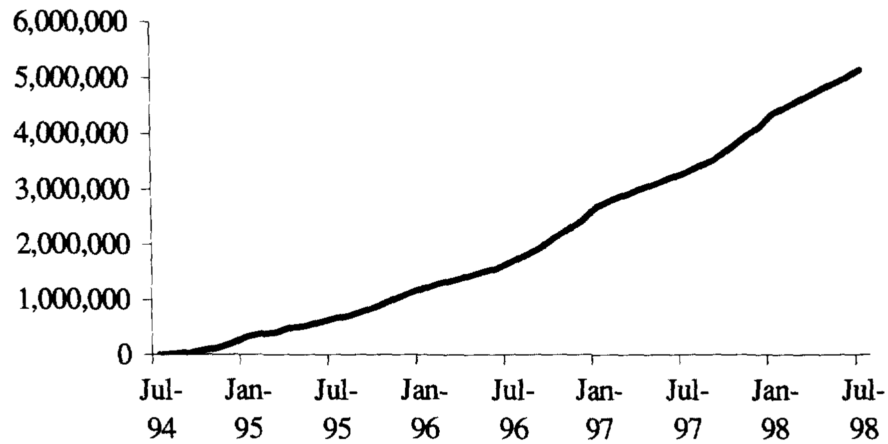
4 "New Media," *CableWorld*, Feb. 23, 1998, p. 18.

High power DBS subscribership grew 3.28 million to 5.14 million between July 1997 and July 1998. This amounts to a 56.6% growth rate. DirecTV and United States Satellite Broadcasting ("USSB") alone added 1.1 million subscribers during this period and EchoStar more than doubled its subscribers during the past year. This continues the steady and rapid rate of growth that DBS has experienced since its inception.:

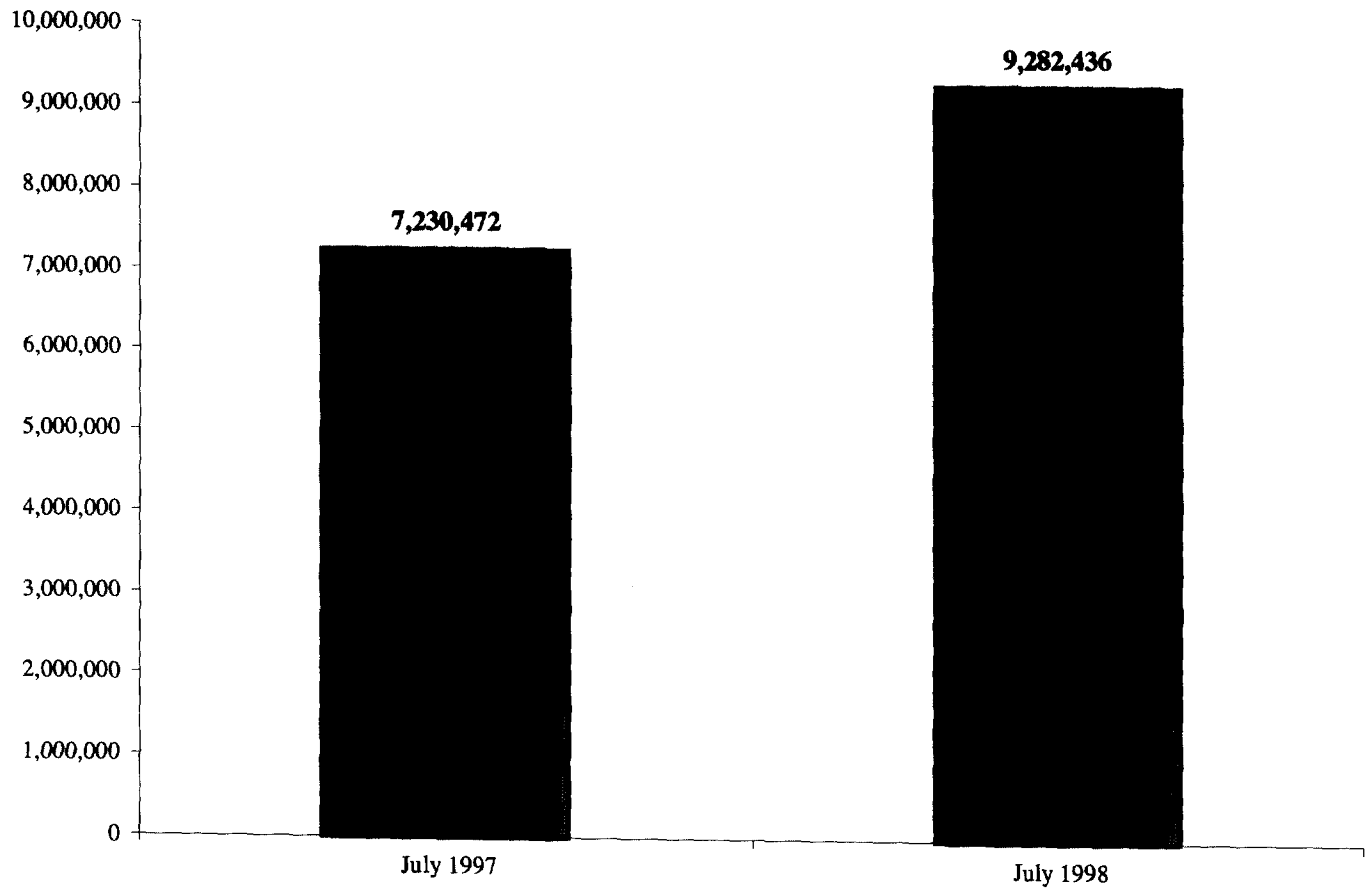
Growth in High Powered DBS Subscribership
July 1994 – July 1998



Source: Media Business Corp., *SkyReport.*

According to the SkyREPORT Newsletter, Direct-to-Home ("DTH"), i.e., all dish customers, including DBS and C-Band subscribership, grew from about 7.23 million to 9.28 million, an increase of 28% from July 1997 to July 1998.

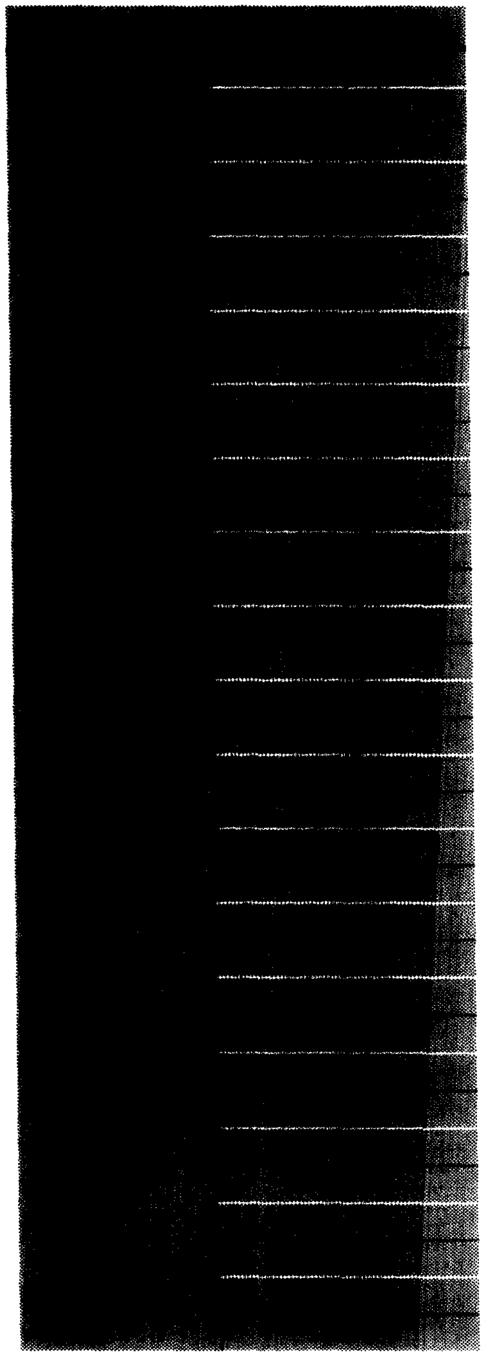
DTH Subscribership: July 1997 and July 1998



Source: Media Business Corp., SkyTrends, July 1998

Growing numbers of consumers are taking advantage of these options in ways that have a real impact in the marketplace. Aggregate national numbers tell only part of the story. In 35 states, DTH satellite subscribership is now over 10% of all television homes. Indeed, in 15 states, DTH satellite penetration exceeds 15%.

States With at Least 10% DTH Penetration



Source: Media Business Corp., *SkyTrends*, July 1998

2. DBS Has A Competitive Effect on Cable Systems.

In last year's annual report, the Commission suggested that notwithstanding the steady and significant annual declines in cable's share of total MVPD subscribership, the numbers still indicated "that downstream local markets for the delivery of video programming remain highly concentrated."[5] But that conclusion was based on a traditional market share analysis that simply does not fit the distinct circumstances of the video programming marketplace.

The key circumstance is that DBS, unlike most new entrants and other firms that serve only a small portion of a relevant market, has from the outset had the capacity to serve almost 100 percent of potential MVPD subscribers nationwide. Once they launched their satellites, the national DBS services placed a footprint over the entire country, and their marginal cost of serving additional subscribers is close to zero. In most product markets, this is not the case. In such markets, it might be possible and profitable for a firm with 85% of the sales in a market to ignore its competitors. It might be more profitable for such a firm to set prices above competitive levels and cede 15% of sales to its competitors than to price competitively in order to compete effectively for that remaining 15%.

But a firm could only do this if its competitors were incapable of capturing more than 15% of sales at competitive prices without incurring substantial costs to increase its capacity. That is not the case for cable operators. One of their principal competitors – DBS – currently has the capacity to serve almost all those subscribers. In this case, it is simply wrong to conclude, based on the fact that cable (which not so long ago served almost 100% of MVPD subscribers) has retained a large portion of subscribers, that cable does not yet face effective competition. What that fact may show is precisely the opposite – namely, that cable has retained most of its

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5 Fourth Annual Report, ¶ 128.

existing subscribers only by responding to competition from DBS and offering packages of services and prices that are competitive with DBS's offerings, so that those subscribers have little reason to switch to DBS.

3. DBS and Cable Are Viewed by Consumers as Similar and Substitutable.

What is more telling than cable's share of subscribership is that its share is continuing to decline steadily, while DBS's subscribership continues to increase by a couple of million each year. Only if DBS and cable were essentially different products competing for different subscribers could DBS's steady and rapid growth be construed as anything but an indication of an increasingly and irreversibly competitive marketplace. But, DBS and cable are not, in fact, different products. As the Department of Justice has concluded, they offer comparable services at comparable prices to the same potential subscribers in local communities throughout the United States:

> Cable and DBS are both MVPD products. While the programming services are delivered via different technologies, consumers view the services as similar and to a large degree substitutable. Indeed, most new DBS subscribers in recent years are former cable subscribers who either stopped buying cable or downgraded their cable service once they purchased a DBS system.[6]

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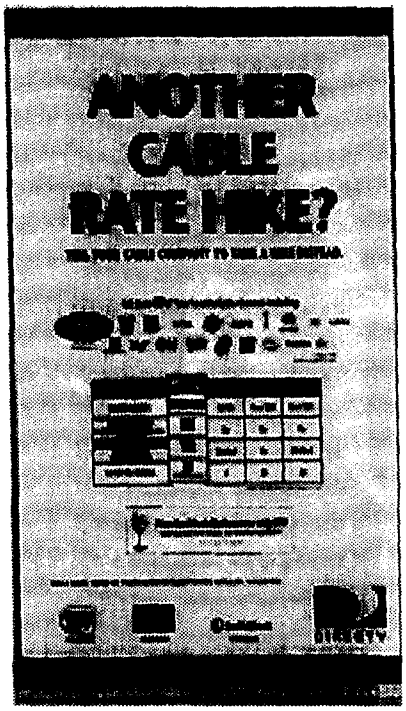
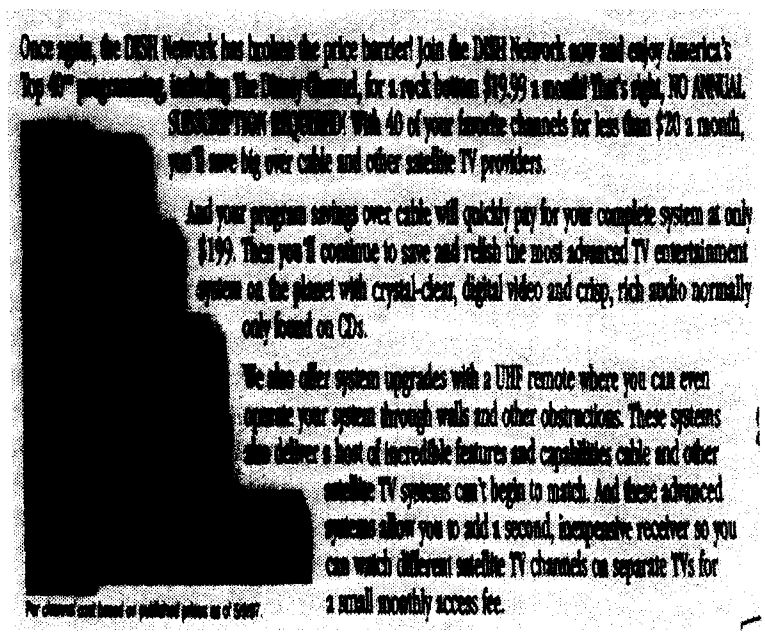
6 *United States v. Primestar, Inc.*, No. 1: 98CV01193, Complaint, ¶ 63 (D.D.C. May 12, 1998) (emphasis added).

a. DBS is Targeting Current Cable Subscribers.

DBS operators, whose advertising is largely targeted at current cable subscribers in metropolitan areas, obviously do not believe that their appeal is limited to "areas cable does not reach.":



Source: *CableWorld*, p. 1, Feb. 16, 1998



Source: Advertisement of EchoStar, *CableWorld*

And the evidence bears them out. A DBS industry study reports that cable is available to more than half of their subscribers – and that most of those subscribers view DBS and cable as substitutable, not complementary, services.

According to a survey conducted for the Satellite Broadcasting and Communications Association by the Yankee Group, 52.5% of DBS subscribers report that they have access to cable television.[7] Most of those subscribers chose DBS instead of cable: 56% switched from cable to DBS, and 17% never subscribed to cable. Only 27% of DBS subscribers with access to cable continue to subscribe to cable (and 53% of that group downgraded their level of cable service when they subscribed to DBS).[8]

b. The Inability To Retransmit Local Broadcast Stations by Satellite Does Not Prevent DBS From Competing Effectively With Cable.

In its Fourth Annual Report, the Commission suggested that "[i]mpediments to carriage of local broadcast signals by DBS services reduce the satellite services' ability to compete effectively with cable television."[9] But this survey data indicates that the inability of DBS to provide a subscriber's local broadcast stations is hardly an insurmountable barrier to competition with cable. DBS currently provides all of the most commonly carried and watched satellite cable programming networks. Local broadcast stations are virtually the only significantly viewed services currently unavailable to DBS. But they are also the only services that are available free, over the air, to television households, whether or not those households subscribe to cable or DBS (or any other subscription service).

The evidence shows that most DBS subscribers are willing either to receive broadcast signals over the air or forgo them altogether. Even more significantly, the Yankee Group survey showed that even those who have not subscribed to DBS do not view DBS's inability to provide local broadcast signals as a reason not to subscribe. Only 8% of all MVPD subscribers

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7 "Satellite TV: Research Overview," Presentation of B. Leichtman, Director, Media and Entertainment Strategies, The Yankee Group, at Sky Forum, April 15, 1998.

8 *Id.*

9 Fourth Annual Report, ¶ 58.

mentioned the lack of local signals as a factor in deciding not to purchase DBS.[10] Similarly, a recent survey released by Strategis Group reportedly found that "just 4% of cable subscribers who weren't interested in DBS blamed lack of local programming."[11]

In addition, at least one current DBS operator (and one potential entrant) believes that they can now overcome the technological impediments to transmitting local broadcast stations to subscribers in (and only in) the stations' service areas. Such "local-to-local" retransmissions are, however, still prohibited by federal copyright law. NCTA has made clear that the cable industry does not oppose amending the law to allow the retransmission by DBS of local broadcast stations – so long as DBS operators are subject to the same signal carriage obligations and restrictions as cable operators.

In any event, DBS providers are finding ways to make it even easier for their subscribers to receive local broadcast stations over the air. They are now marketing equipment that is capable of receiving and tuning their programming via satellite <u>and</u> local broadcast signals via the airwaves. Thus, DirecTV illustrates for potential customers "[a] new generation of off-air antennas [that] can seamlessly deliver high-quality signals from free local TV broadcasters directly to your DSS system with just a push of your remote"[12]:

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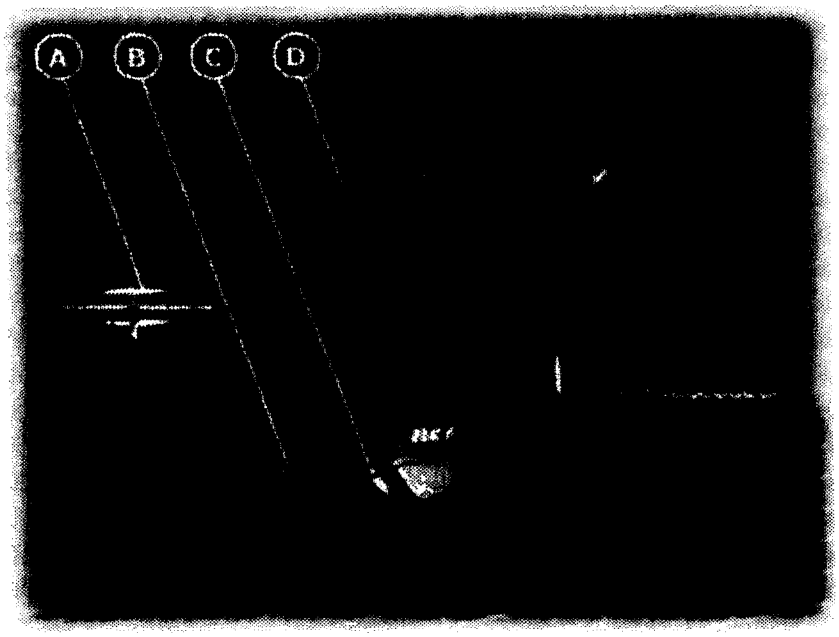
10 "SBCA and The Yankee Group Announce Results of Important DTH Research Studies," SBCA Press Release, June 29, 1998.

11 *Communications Daily,* July 24, 1998, p.14.

12 "YES YOU CAN! Enjoy Local Channels and DIRECTV® Too!," <u>http://www.directv.com/misc/yesyoucan3.html</u>.



These antennas include an off-air antenna, developed by RCA in its third generation DSS system, "that is imbedded directly into the 18-inch satellite dish and is virtually invisible to the eye."[13]

Furthermore, the DBS industry and the Consumer Electronics Manufacturers Association ("CEMA") have formed a coalition to facilitate the use of off-air antennas to receive analog and digital broadcast stations by DBS customers and other television viewers.[14] In conjunction with this coalition,

> CEMA is putting together coverage maps for all 211 DMAs that indicate what kinds of antennas consumers will need depending on where they live in the market. The over-the-air reception maps, which originally were the brainchild of DBS operator, USSB, will be available to retailers by early fall.[15]

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[13] *Id.* This imbedded antenna is identified as example (C) in the illustration. The other examples are (A) an omni/semidirectional, UHF/VHF antenna, (B) an omnidirectional, UHF/VHF antenna, and (D) a directional UHF/VHF antenna (traditional rooftop antenna).

[14] See, e.g., "Off-Air Antenna Makers are Poised to Capitalize on Digital Switch," *Satellite Business News*, July 14, 1998, p. 8.

[15] "Counting Down to DTV," *Broadcasting and Cable*, July 20, 1998, p. 23.

The point, of course, is not that cable and DBS are identical services. Each has its own unique characteristics that may be attractive to some subscribers. Thus, while cable provides local broadcast signals without the need for over-the-air reception, DBS has exclusive rights to offer certain programming, such as major league sports packages, which are not available to cable systems. Satellite-delivered programming services that are owned by cable operators are required to make their programming available to DBS and other competing MVPDs on nondiscriminatory terms, but DBS operators are under no similar obligation to make their programming available to cable operators.

DBS has the capacity to offer more channels of programming than many older cable systems that have not yet been upgraded and can provide high quality digital video and audio. On the other hand, because cable systems are locally based, they can put more emphasis on creating locally originated programming as well and on providing customer service closer to the customer.

c. As DBS's Prices and Up-Front Costs Have Plummeted, DBS And Cable Have Become Substitutable.

What matters, for purposes of determining whether cable and DBS should be viewed as competitors in a relevant product market, is whether the two services, though not identical, are reasonably good substitutes for one another at the prices at which they are offered. In characterizing DBS as a "high end product," some have suggested that DBS and cable are not good substitutes – that DBS is a higher priced, niche product that appealed only to wealthier consumers. The evidence increasingly suggests that this is not the case.

First, "[c]able and DBS compete by offering similar packages of basic and premium channels for a monthly subscription fee,"[16] and they offer those packages at similar prices. For example, DirecTV's list price for its Select Choice® package of "over 40 popular channels of news, sports and entertainment programming" is $19.99 a month.[17] It offers over 85 entertainment channels, including 31 commercial-free digital audio channels in its Total Choice® package for $29.99.[18] Subscribers can add either 14 commercial-free movie channels or over 25 specialty and regional sports networks to the Total Choice package for an additional $10, or they can add both for an additional $18.[19] The Commission's most recent report on cable industry prices indicated that as of July 1, 1007, the competitive average monthly rate for the basic and cable programming service tiers was $27.26, and the noncompetitive average rate was $28.83.[20]

Second, the equipment costs associated with DBS do not have the effect of raising DBS prices above the prices for comparable cable service along with associated equipment. The notion of high up-front costs for DBS equipment is antiquated. When the first Ku-band services, DirecTV and USSB, were first introduced in 1994, their customers were required to purchase their own receiving dishes and tuning equipment from retail outlets, and the retail prices were high. A dish and receiver capable of providing one channel at a time to a single television set cost approximately $699, and the cost of installation was approximately $69.95.[21]

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16 Complaint, *United States v. Primestar, Inc.*, *supra*, ¶ 63 (emphasis added).

17 See, www.directv.com/programming/core.html.

18 *Id.*

19 *See*, *e.g.*, www.directv.com/programming/core.html. EchoStar offers similarly priced packages.

20 Report on Cable Industry Prices, 12 FCC Rcd 22756, 22762 (1997).

21 *See* 1994 Report, 9 FCC Rcd 7442, 7475 (1994).

But wholesale equipment costs have declined dramatically, and increased DBS competition had led to marketing strategies much different than DirecTV's initial approach; prices today are dramatically lower. When EchoStar entered the market with its Dish Network, it sold receiving equipment to new subscribers at prices far lower than the retail prices that DirecTV's subscribers had been required to pay – and DirecTV soon responded by offering equipment discounts to its own subscribers. Today, DBS subscribers can purchase receiving equipment for $149 – in other words, for approximately the same price as low-end video cassette recorders, which are hardly viewed as luxury or "high-end" purchases.

Indeed, if the Commission were to conclude that the up-front costs associated with DBS were so high as to make it a "high-end" item beyond the reach or desire of most consumers, then it ought immediately to reassess its digital television rules and policies. The up-front costs of DBS, even at the outset when they were at their highest, pale in comparison to the cost to consumers of replacing their existing television sets with expensive, new digital/HDTV sets. They pale even in comparison to the cost to consumers of purchasing converter boxes for their existing sets just so that they can continue to receive standard definition television after the transition to digital broadcasting.

In any event, there is nothing inherent in the technology of DBS that requires DBS customers to incur high up-front costs. The decision to require subscribers to purchase and install their own equipment is a <u>marketing</u> decision. Yet another DBS operator, Primestar, opted from the outset to <u>lease</u> equipment to subscribers, so that subscribers pay a small additional amount each month in lieu of an up-front payment. And it appears that this option will finally be available to DirecTV, USSB and EchoStar subscribers, too.

Specifically, as discussed below, Bell Atlantic and SBC have entered into agreements with DirecTV and USSB to market those services to their residential telephone subscribers – and to lease the necessary receiving equipment instead of requiring subscribers to purchase it. This approach will not only deal with the supposed problem of up-front costs but will also address the issue of the inability of DBS systems to transmit local broadcast signals: "To counter that, Bell Atlantic will give customers the option of having a high-performance rooftop antenna installed to receive local stations. A customer would toggle between satellite stations and local stations using a button on the remote control."[22]

EchoStar has also begun promoting its own "best dish lease deal ever!"[23] That deal offers EchoStar's "America's Top 40"℠ package with equipment (including maintenance and service) for $29.95 per month, and it offers professional installation for $99. Alternatively, EchoStar offers equipment and installation at heavily discounted promotional rates to subscribers who purchase "America's Top 60 CD"℠ or "America's Top 40"℠ packages. EchoStar's "best dish deal ever!" offers two free months with the purchase of a dish and receiver (along with a free self-installation kit), so that, as EchoStar points out, the effective cost of the equipment is only $89 for those who purchase the America's Top 60 CD package, and only $109 for purchasers of the America's Top 40 package.[24] Furthermore, many equipment retailers offer to finance the sale of DBS receiving equipment, so that the cost is amortized over many months.

In sum, the notion that DBS is a "high-end" luxury service is as outdated as the view that DBS is primarily aimed at and purchased by rural subscribers who have no access to cable

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22 "Bell Atlantic To Offer TV Service Via Satellite," *Philadelphia Inquirer*, March 3, 1998.

23 www.dishnetwork.com/order/lease/index.html.

24 www.dishnetwork.com/promos/deal.html.

service. DBS is currently targeting cable subscribers throughout the nation, and it is doing so by offering services and prices that make cable and DBS substitutable products for tens of millions of consumers. Especially now that DBS has been chosen by Bell Atlantic and SBC as the primary video programming component of the "full suite of services" that they intends to market to their residential telephone subscribers,[25] there is no reason to assume that the steady growth of DBS subscribership over the last several years can be countered by anything other than innovative and competitive service offerings by cable operators.

Finally, there persists the idea that cable and DBS are not competitive because the "whole house" pricing of cable allows for several sets to receive cable for the same price as one set. While DBS customers need to acquire separate boxes if different sets are used to watch separate programs. First, it bears mentioning that whole house pricing is required by the FCC's equipment rate rules; prior to 1993 some operators charged for each set. It is thus not an inevitable competitive advantage of the cable platform.

More significantly, and scarcely discussed, is that there is nothing inevitable about DBS's decision to charge for each set top, or require the customer to purchase each one. It is simply a question of whether DBS entrepreneurs are willing to bear the financing costs of whole house pricing. A DBS provider could offer subscribers the same pricing as cable – but it chooses to offload the pricing costs of sets on customers. In other words, it could "loan" customers as much as necessary to match cable's pricing. Cable has long done this – systems are built out over the entire neighborhood as a condition of franchising – even if the local drop goes unused for years. The price of cable reflects this cost of infrastructure and the debt service associated with it. As DBS moves into profits (DirecTV will soon do so), the only limitation on

25 "B.A. 'Not Leaving Any Realm of Competition Uncontested,'" *Cable World*, July 13, 1998, p.24.