



April 21, 2016, 06:00 am

# The Obama administration is misleading consumers on set-top box prices

By George S. Ford, contributor



Getty

Last February, the Federal Communications Commission (FCC) **proposed an aggressive set of rules** on cable and satellite providers for the ostensible purpose of creating a retail market for cable set-top boxes, promising consumers they'll save billions. **In fact, the FCC's proposal is just special-interest regulation shifting money among corporate giants**, this time forcing video providers and copyright owners to surrender their intellectual property without compensation to profit-seeking third-parties wanting to **monetize your viewing habits**. Not having any independent data of their own to support such a massive intrusion, **President Obama, FCC Chairman Tom Wheeler and Jason Furman** — the chairman of Obama's Council of Economic Advisers — all point to an **informal survey** conducted last year by Sens. **Richard Blumenthal** (D-Conn.) and **Ed Markey** (D-Mass.) which purports to show that multichannel video subscribers pay an average box fee of \$7.43 per month, or \$231 annually for an assumed average of 2.6 boxes per home.

While these figures are central to the administration's cause of expanding regulation, Markey and Blumenthal's survey provides no details as to how their figures are calculated. However, even a casual review of the survey data suggests the figures reported by Blumenthal and Markey are much too high and too messy to drive public policy.

First, given the informal nature of the survey, not all the responses are directly comparable. For example, some providers' boxes always include a digital video recorder (which is costly); some don't. Other providers present only a range of prices. Moreover, many subscribers pay less than list price for boxes due to promotions, but the survey responses include no details on such plans.

Second, several providers (e.g., AT&T and DISH) provide their customers with one free set-top box. Blumenthal and Markey appear to ignore this fact. AT&T customers get the first box for free and then pay \$8 for additional boxes, so the actual price per-box is only \$4.92 if the subscriber has 2.6 boxes, implying a 60 percent overstatement of fees. This is a sizeable error. The DISH fees are quite comparable: an effective price of \$4.20 and not \$7, as Blumenthal and Markey seem to suggest.

Third, Blumenthal and Markey assume that the subscribers for all providers in the sample have 2.6 boxes, but the survey responses suggest otherwise. In a number of instances, the actual count of set-top boxes deployed is provided — data that can then be divided by video subscribers to get an actual number of boxes per subscriber. Bright House Networks, for example, tells the Senators it has 3.8 million boxes on a subscriber base of 2.4 million, implying 1.6 boxes per subscriber. Arbitrarily assuming that the average for Bright House is 2.6 inflates its set-top box fees by 60 percent.

Fourth, the video providers who responded to the survey differ substantially in size. Comcast, for example, charges about \$2.20 to \$2.50 per set-top box and serves 22.4 million subscribers. Comcast is the largest provider in the nation, and its set-top box fees are the lowest. Cox, alternately, services only 2.9 million subscribers and charges \$8.50 per box. A simple average of the two firms produces a price of about \$5.43, but the subscriber-weighted average between the two is only \$3.05. If the goal is to extrapolate an average to the population, the subscriber-weighted average is obviously proper form.

So what is really going on here?

A few assumptions are required to deal with the missing data and informal responses. DISH did not provide any information on the average number of boxes per subscriber. DirecTV, its satellite rival, did, however, so I assumed the average for DISH was equal to that of DirecTV (2.5 boxes). Verizon likewise provided no information on the average number of set-top boxes per subscriber, so I assumed its value was equal to the average of other terrestrial-based video providers in the sample (2.2 boxes). Comcast and Time Warner Cable offered a range of prices for the set-top box, so I took the midpoint of the range as the price. And, as mentioned, promotions must be ignored, so these estimates are plausibly upper bounds on the set-top box fees.

Based on the survey responses and these few assumptions, I computed a subscriber-weighted average of the set-top box fees. These subscriber fees for set-top boxes vary widely across video providers. Comcast, the nation's largest provider, has the lowest average annual fee at \$76.14 (for 2.7 boxes per subscriber). Cablevision, with 2.85 boxes per subscriber, has the highest annual fee at \$237.37.

Most importantly, across all 10 providers in the survey, the average annual fees paid for all boxes in the subscriber's home is \$145. The average monthly cost per box is \$5.15. These averages are well below those reported by Blumenthal and Markey (\$7.43 per box and \$231 per year). Blumenthal and Markey, grossly overstate — by 60 percent — the fees related to set-top boxes. The error, of course, has been passed along by numerous others relying on the survey without doing due diligence. Extending these better estimates of average fees to the entire multichannel video businesses, the annual expenditures of the U.S. consumer on set-top boxes equals about \$12 billion, almost half of the \$20 billion claimed by Blumenthal and Markey.

#### Average Set-Top Box Fees from Blumenthal-Markey Survey Responses

Provider	Subs (mil.)	First Box	Add'l Box	Boxes/Subs	Annual Fees
AT&T	6	\$0.00	\$8.00	2.6	\$153.60
Bright House	2.4	\$8.00	\$8.00	1.6	\$154.00
Cablevision	2.6	\$6.95	\$6.95	2.85	\$237.37
Charter	4.2	\$6.99	\$6.99	2.3	\$195.59
Comcast	22.4	\$2.35	\$2.35	2.7	\$76.14
Cox	2.9	\$8.50	\$8.50	1.8	\$186.41
DISH	13.4	\$0.00	\$7.00	2.5	\$126.00
DirecTV	20.4	\$6.00	\$6.00	2.5	\$180.00
Time Warner	10.8	\$8.63	\$8.63	1.3	\$131.29
Verizon	5.5	\$9.67	\$9.67	2.2	\$251.10
Average Annual					\$144.98
Average Per Box/Month					\$5.15

Finally, price information alone says very little about the need for regulation or the benefits of a retail market. The relevant question is: Are set-top box prices too high? Despite the Obama administration's rhetoric saying "yes" (**including the president himself**), the administration has yet to present a sliver of evidence on the cost of a set-top box. What evidence has been presented on cost?

Nothing from Blumenthal and Markey.

Nothing from the FCC.

Nothing from the Council of Economic Advisers.

Nothing from the president.

In all, the Obama administration has provided bunk in terms of serious analysis, relying instead on nothing more than political sophistry. For the FCC, the alleged "expert agency," such ignorance of, and apathy for, the facts is a dereliction of duty.

There is some evidence related to the cost question, however. For instance, when the government offers multichannel video services, as it does in many cities across the country, **it charges the same price** (if not a little more) for set-top boxes as does the private sector.

Years ago, the FCC made big promises to American consumers when it implemented its first plan to create a retail market for set-top boxes. My guess is you have no idea what that plan was. And I'm guessing the FCC hopes you don't remember, either. Less than 1 percent of consumers ever bothered with the scheme, despite the billions in hidden costs paid by consumers to implement it. It was an unmitigated disaster, **followed by the commission's second attempt that failed to even launch**. But, as Scripture forewarns, "as a dog returns to his vomit, so a fool returns to his folly." Perhaps the third time is a charm, but given that the stealing of intellectual property is against the law (regardless of whether it is condoned by the Obama administration), I'm not particularly optimistic.

*Ford is the chief economist of the Phoenix Center for Advanced Legal & Economic Public Policy Studies, a nonprofit 501(c)(3) research organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of the digital age.*

**TAGS: Federal Communications Commission, FCC, Richard Blumenthal, Jason Furman, Ed Markey, Set-top box**

The Hill 1625 K Street, NW Suite 900 Washington DC 20006 | 202-628-8500 tel | 202-628-8503 fax

The contents of this site are ©2016 Capitol Hill Publishing Corp., a subsidiary of News Communications, Inc.