Remarks of Heather McCallion
Atlantic Broadband
FCC Diversity Workshop
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Thank you. I'm Heather McCallion, and I am the Vice President of Programming at Atlantic Broadband. Atlantic Broadband offers broadband Internet, cable television, and phone service. We serve roughly 245,000 video subscribers in New York, West Virginia, Pennsylvania, Delaware, Maryland, Miami, South Carolina, and Connecticut. I oversee negotiation, implementation and compliance for all of the company's video content. I have negotiated agreements with multiple large programming groups, and, on behalf of Atlantic Broadband, have opted into master agreements negotiated by NCTC for other programming.

I want to begin by aligning myself with Judy's remarks. I've seen almost all of the behavior she describes. In particular, in negotiating direct deals for broadcast and regional sports networks, I have experienced firsthand the insistence by large programmers that Atlantic Broadband accept less popular bundled channels in order to maintain carriage of "must have" content. These bundled channels are generally presented as a non-negotiable demand, and all efforts by Atlantic Broadband to carry only the channels it wants, or create room for alternative tiers by lowering penetration thresholds, have been challenged at every

pass. The deals NCTC negotiates for must-have programming from the big programmers similarly require Atlantic Broadband to carry large numbers of channels that are not always aligned with our customer demographic. Let me give you one example. Recently, we had a broadcaster require carriage of a "yet to be launched" network, as a condition of granting retransmission consent.

So Judy is exactly right when it comes to the behavior she is seeing in the marketplace. I wanted to focus a little more, however, on the *effect* this behavior has on diversity interests, particularly as they relate to traditional MVPD carriage. (I understand that Chris Kyle of Shentel is going to focus on the effects on broadband video.)

Let me begin by talking about capacity, since it is obvious that bundling harms diversity when applied to capacity-constrained systems. Atlantic Broadband's systems range from 330 MHz to 1 GHz in total capacity. Systems with 750 MHz of capacity or less serve more than half of Atlantic Broadband's customers. These systems, which also must carry a broad HD lineup and deliver the broadband speeds necessary for streaming online video, have only a limited number of video channels they can carry.

Even though Atlantic Broadband has invested heavily in expanding capacity, the aggressive bundling by big programmers means many of our systems still have

newly created capacity consumed by video needs, almost immediately. And these capacity upgrades should truly be intended for improvements for High Speed Data and our HD lineups (some larger Pennsylvania markets still have only 50 HD's, others have none and are still working on an HD rollout plan). To align with industry averages, we have to offer over 100 HD's. While we can take some steps to extract extra capacity from these systems, these shorter term solutions are still extremely expensive and don't fully fix the issue. We are putting these solutions in place for many of our systems, but we could spend millions to increase capacity and still not have enough. In Uniontown, Pennsylvania, for example, we have a system that is fully digitized but is only 550 MHz. It is completely out of video channel space. To add one more video channel – whether analog or digital – it will cost about $600,000. We'll have to write that check soon, because we have bundling obligations to meet.

We would love to see how subscribers respond to new, independent channels, but because our capacity is taken up by bundled channels, it is very difficult to make that happen. We cannot afford to try new channels we are not obligated to carry, because each new channel now requires a new, expensive investment. Capacity constraints have hindered us from carrying multiple independent channels, including Ovation, RFD, and Hallmark Movies & Mysteries, as broadly as we would like.

Bundling also hinders our ability to carry programming that matches the viewing preferences of our subscribers in different areas. To take one example, there is particular must-have Spanish language broadcast network in Miami. In order to receive that programming, we were required to add a new Hispanic "lifestyle" network in markets beyond Miami, and that don't that have less than two percent Hispanic penetration. This means we cannot carry a channel like RFD, MAV TV, or Outside TV in systems like Cumberland, Maryland. Likewise, we have to carry a conference-specific sports network to customers in states well outside the reach of that particular conference. In these areas, that network receives proportionately lower viewership than it does for "in market" systems, ranking 190 in out-of-market and 27 in-market, for customer viewership. This proves the misalignment of the content with the demographic, and the fact that forced bundling of this channel does not serve the consumer. Still, we had no choice but to carry the above-referenced network if we wanted to maintain carriage of the more popular networks within that larger programmer's offering.

The price of bundling equally impacts our ability to carry independent channels. Atlantic Broadband has a set programming budget each year, and when we are forced to pay for a large number of new or more broadly distributed networks that have little to no appeal to our customers, it limits the money we can spend on any other programming. Due in large part to bundling, Atlantic

Broadband's programming cost increase has nearly doubled year-over-year since 2013. Increases to our programming budget were $5-$6 million in 2013. In 2016 that increase was over $11 million. Atlantic Broadband's subscribers are disproportionately older and lower income, and there are limits to how much cost we can pass on to them. When you are facing $10 to $12 million increases in programming costs and you are forced to raise rates by more than $5 a year, there is absolutely no room to spend another discretionary penny on programming that isn't mandated. This effectively means that adding independent channels is not feasible. Indeed, we have *removed* independent networks from our lineup because of cost and capacity issues, and because these networks weren't "tied" to other more highly viewed, must-have networks. It made the independent programmers we've removed more vulnerable.

Large programmers also demand extremely high penetration levels for much of their programming, and allow little flexibility for the consumer to shift away from the traditional "expanded basic" tier, which they are in fact enabling by providing alternative content options that don't require a cable subscription. For new connects, we see more customers buying our basic level of service with high speed internet, choosing to forego the "fat" expanded basic tier mainly due to cost and their ability to get content in other ways. These penetration requirements are found in all master agreements with big programmers from NCTC, and are insisted

upon by the programmers Atlantic Broadband negotiates directly with, as well. These penetration requirements can be expressed in many ways. Some are percentages of total video subscribers. Some specify particular tiers for carriage. Some provide exceptions for basic or alternate tiers—but limit the number of subscribers who can take that tier. None of the "exceptions" provide enough room to truly create smaller, more diverse tiers that might super-serve a customer in Atlantic Broadband's demographic. What's also challenging is that the bundling requirements usually require deeper distribution for underperforming networks that our customers don't see as valuable and do not get high viewership. Recently, as a condition for retransmission consent renewal that resulted from the acquisition of a new system, a major broadcast owner required carriage of their cable network across ABB's entire footprint, even in markets that did not have retransmission consent exposure for that broadcast owner. In fact, as a result of having exposure for a "big 4" network, which had not existed prior to the system acquisition, the overall cost and cable distribution requirement of the renewal more than doubled.

The penetration requirements undermine our ability to carry independent programming just as much as do bundling requirements. They create a bloated and needlessly expensive expanded basic tier, one we are reluctant to expand further by including independent programming. As a result, Atlantic Broadband's systems carry only a very small number of independent channels in expanded basic.

Penetration requirements also further strain capacity. Nearly half of our subscribers are in systems that are not yet all digital, and their most popular basic and expanded basic tiers remain in analog format. Because analog channels require about 12 times the bandwidth of digital channels, broadening distribution for a single channel to our expanded basic tier takes up space that could go to multiple independent programmers in digital tier.

The bundling and penetration demands by programmers have only grown worse in the last few years. As cable viewership audiences have declined due to the rise of online video, programmers are increasingly using bundling tactics to maintain audiences and overall revenues otherwise lost to time shifting and online viewing in the advertising space.

Even when Atlantic Broadband does enter negotiations to add a new independent programmer, there are additional obstacles. Large MVPDs often include "Most Favored Nation" ("MFN") clauses in their deals with independent programmers, which at their most pernicious, permit an MVPD to cherry pick a more favorable term from a programmer's deal with any cable operator without taking on any of the obligations the operator took on in exchange for the better term. Atlantic Broadband has been impacted by such MFNs and ultimately could not reach agreement to carry a new independent programmer because of a video

penetration requirement that the programmer had been able to obtain from a larger MVPD. In another case, a network that was historically not charged for carriage is now imposing a license fee because of an MFN. If that programmer doesn't get a license fee from Atlantic Broadband, they'll lose the license fee they've negotiated with a larger MVPD. So while Atlantic Broadband is willing to offer the independent programmers workable terms for distribution, flexibility and creativity for these negotiations are limited in many cases, due to MFNs.

In terms of what the Commission can do, here again I agree with Judy. Forced bundling significantly increases costs for both us and our customers and consumes precious bandwidth that could be put to more valuable use that aligns with customer interests in more diverse programming choices. Fixing the loophole that prevents NCTC from bringing program access complaints would be very helpful. It would also be helpful for the FCC to address these issues under its retransmission consent rules. Atlantic Broadband has encountered many of the behaviors that harm diversity in the context of retransmission consent negotiations—an ironic outcome, since broadcasters like to think of themselves as stewards of the public interest. I'd urge you to consider in particular the bundling proposals offered by ACA and others in that proceeding.

Again, I'm very grateful for the opportunity to present Atlantic Broadband's perspective on these issues. I'm more than happy to answer any questions you might have.