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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

October 23, 2001

Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: *Ex Parte* Communication in PP Docket No. 00-67 (Compatibility Between Cable Systems and Consumer Electronics Equipment)

Dear Ms. Salas:

On Monday, October 22, 2001, Lawrence R. Sidman of Verner, Liipfert, Bernhard, McPherson & Hand, and David Arland and Eric Carlsgaard of Thomson Multimedia, met with Stacy Robinson, Legal Advisor to Commissioner Kathleen Q. Abernathy, to discuss the status of efforts regarding DTV-cable compatibility.

The discussion focused on possible steps the Commission might take to hasten final adoption of "build-to" standards for cable-compatible DTV receivers, as well as to ensure that, once such a standard is completed, it is uniformly implemented by major cable MSOs. Additionally discussed was the need for final agreement on digital copy protection and the need to protect consumers' digital recording and time-shifting capabilities within the home network. Thomson's views are further reflected in the attached materials, which were distributed at the meeting.

In accordance with Section 1.1206 of the Commission's Rules, 47 C.F.R. § 1.1206, an original and one copy of this letter, including attachments, is being filed with your office. Please direct any questions concerning this matter to the undersigned.

Respectfully Submitted,

Lawrence R. Sidman

Lawrence R. Sidman

Attachments

cc (w/out attachments): Stacy Robinson

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List A B C D E

Eliminating Roadblocks to Delivering Basic Digital TV Over Cable

Basic Cable-Ready Service for Digital Television is Readily Achievable...

CEA/EIA has developed the EIA-818 standard, and the SCTE has developed a similar specification, that will permit "Digital Cable Ready 1" functionality (as defined by the FCC) for cable operators to distribute DTV over cable. This would permit a set manufacturer to integrate digital TV cable tuning, and allow the consumer to plug the HDTV set directly into a common coaxial cable outlet to receive basic analog, basic digital and premium digital (i.e., HBO, Showtime) cable programming. Of course, encrypted programming will require a working POD module – which does not yet exist.

EIA-818 does not enable impulse pay-per-view movies ("IPPV") or interactivity. (IPPV is included in the (incomplete) EIA-819 bidirectional standard, and the recently-approved DVS-295 (via a POD module)). These services can be accessed through proprietary STBs in the near-term, and later through commercially-available STBs and, ultimately, integrated DTVs, as work on a "middleware" standard is completed. *Work on these advanced services should **not** be allowed to delay completion of all other elements needed to enable the mass production of viable "Digital Cable Ready 1" products.*

...However, Digital Cable Ready 1 Functionality Will Be Not Be Viable Until Certain Roadblocks are Removed:

Roadblock No. 1: The Nation's Major MSOs Have Yet To Commit To DTV-Cable Compatibility Agreements And Technical Standards

Voluntary DTV-cable compatibility agreements and technical standards are not binding and are meaningless without the written endorsement of the nation's major multiple system operators. Today, none of the five major MSOs have publicly announced any plans to utilize a single, agreed-upon standard. Without their commitments, uncertainty over a DTV's uniform compatibility with all U.S. cable systems will inhibit mass production of cable-compatible DTVs.

Solution: An enforceable, national agreement on a cable standard for digital TV is critically needed to drive mass production of DTVs, much the same as the ATSC system was selected by the FCC as the terrestrial broadcast standard.

Roadblock No. 2: Cable Operators Have Not Agreed To Transmit Complete PSIP Data For Electronic Program Guides

Digital TV sets need complete Program System Information Protocol (PSIP) data to build electronic program guides that will allow channel surfing with a remote control, relying upon a free program guide inside the digital TV. Although EIA-818 specifies the transmission and reception of program guide data via PSIP (using the A/65 standard) for in-the-clear channels, cable operators are not complying with the A/65 standard for encrypted cable programming, instead using proprietary approaches. If this continues, the only way for DTV consumers to find a program without using the subscription-required cable program guide would be to tune to an exact, specific channel such as Channel 004-2. This is an unacceptable limitation on DTV receiver functionality and consumer choice.

Solution: Cable operators should be required to pass through standardized PSIP program data with the A/65 method, so that consumers will be able to utilize program guides offered with DTVs, including free guides.

Another Solution: Cable operator-supplied POD modules COULD be required to convert cable-only material to the cable interoperability standard (EIA 818 and DVS-295) so that the TV set would understand the information.

Roadblock No. 3: A Compromise Which Protects Digital Content From Unauthorized Retransmission Over The Internet And Safeguards Consumers' Home Recording Expectations Has Not Been Achieved

The proposed POD license (PHILA) will allow content owners to prevent home recording of some digital programs or to automatically erase others that have been legally recorded with digital consumer products, such as personal video recorders, for use within the Personal Home Network. If the PHILA license is not changed, consumers will only be able to purchase digital home recording products that are LESS functional than a common analog VCR. Crippled digital recording/time-shifting products that consumers find to be a step backward from their analog counterparts will anger consumers and chill consumer demand for DTV products generally.

Solution: The FCC should review the PHILA license and solicit public comment on it. If the affected industries cannot reach voluntary agreements regarding digital copy protection standards and preservation of consumers' rights to copy digital content *so long as it is not redistributed outside the home network*, legislation may be needed.

OTHER ISSUES AFFECTING THE DTV TRANSITION

DTV Manufacturers Are Delivering on Their Promise to Bring Abundant and Evermore Affordable DTV Products to Consumers.

Today, manufacturers have introduced more than 200 DTV products at rapidly declining price points. Thomson multimedia, with its RCA and RCA Scenium brands, is leading the way in offering an increasing number of fully-integrated HDTV receivers, as well as rear-projection and direct-view HD monitors, all at a variety of screen sizes and price points. Thomson also manufactures the DTC100 – the market's most successful and affordable ($549) digital-to-analog set-top HDTV receiver/converter – *and* recently announced one of the most exciting new DTV innovations, the RCA "Liquid Crystal on Silicon" (LCOS) HDTV that is now in final testing before a retail launch.

HDTV Programming is Improving, But a Lack of Programming Remains A Major Obstacle to the DTV Transition.

No amount of affordable receiver equipment will drive consumer demand for DTV if there is too little to watch. The lack of sufficient amounts of high quality DTV content, particularly HDTV programming, is dampening what would otherwise be far greater consumer demand for DTV products and represents one of greatest obstacles to the continued forward progress of the DTV transition. Thomson commends those content sources – CBS, ABC, HBO, public broadcasters and Mark Cuban's HDNet, in particular – who are making HDTV programming available. *It is time for all broadcasters to deliver on their DTV promise by offering greater amounts of original DTV programming, especially HDTV.*

A DTV Tuner Mandate Is Anti-Consumer and Would Slow, Not Hasten, the DTV Transition

A mandate whereby all television receivers would be required to include DTV reception capability for terrestrially broadcast signals by some date certain would impose substantial and unreasonable costs on consumers (doubling or tripling the cost of the industry's two largest volume products) – reversing the downward trend of DTV costs, stifling innovation by DTV manufacturers and chipmakers, and, ultimately, delaying if not imperiling the DTV transition and the return of the analog spectrum. Such a requirement does nothing to address the bigger issue of ensuring that digital TV sets work with digital cable systems.

Price of HDTV Falls From 'Yikes!' Level

By Mike Musgrove
Washington Post Staff Writer
Friday, October 19, 2001; Page E01

Prices on high-definition digital TVs, those flashy sets with pictures twice as sharp as that of any analog set, have started to slide toward affordability this year.

HDTV sets once cost several thousand dollars, but a few 32- and 36-inch models have ducked under the $2,000 mark. Market researcher NPD Intelect reports that HDTV prices have dropped by 22 percent through August of this year.

"This is really starting to take off as the prices come down," said Schelley Olhava, an analyst with IDC. The research firm projects that 1.2 million digital TVs will be sold this year, bringing total sales to 2 million. (The digital TV standard allows for a variety of levels of resolution, but nearly all digital TV sets can display a high-definition signal.)

Sales have actually grown faster than prices have dropped -- those NPD figures also show that sales this year are up by 50 percent through August.

At the same time, many HDTV owners don't even own the tuner needed to pull in a digital signal.

The Consumer Electronics Association reports that 862,996 HDTVs have been shipped to dealers this year, against only 87,509 digital tuners. (A few HDTVs include tuners, but the association didn't break out their numbers.)

Without a tuner, an HDTV can still show DVD movies with much better picture quality than any analog set.

But there hasn't been much HDTV broadcasting to watch, either. TV stations are required to air a digital version of their signal, but they can opt for a cheaper-to-produce "standard-definition" format instead of HDTV. Many are doing so, leaving customers little incentive to pay extra for the digital tuner just yet.

Most cable companies, meanwhile, have avoided carrying digital signals, arguing that sending along two versions of every channel would consume too much bandwidth. That leaves over-the-air reception and satellite broadcasting -- something that also turns off many potential viewers.

"It's been a chicken-and-egg sort of thing," said Judianne Atencio, a spokeswoman for the satellite broadcaster Dish Network.

For instance, NBC, though it was one of the first to try out the technology (it's been airing "The Tonight Show With Jay Leno" in HDTV) still offers only two programs in high-definition.

Some broadcasters and viewers are starting to meet in the middle, thanks to TV manufacturers' subsidizing HDTV broadcasting costs. ABC, for example, is moving toward airing almost all of its shows in HDTV formats.

CBS has been the most aggressive network in offering HDTV, with only news broadcasts and reality shows such as "Survivor" still airing in standard definition.

"It's a business now, not just a hobby," said Martin D. Franks, executive vice president of CBS. "But there are still a lot of issues, that are more technological than business, that need to be resolved."

One, whether and how to prevent recording of high-def movie broadcasts, remains a subject of squabbling.

Another sign that HDTV may be starting to go mainstream: At HDTV-enthusiast Web sites, moderators are starting to notice a difference in the types of folks logging on.

"Up until six to 12 months ago, most of the people were hobbyists and early adopters, like in the old days when people were really into ham radio or hi-fi," said Ken Holsgrove, a moderator at the AVS Forum site. These days, he said, a lot more people don't care about the finer points of technology and just talk about which shows to watch.

While lower HDTV prices have helped kick up sales, some warn that prices probably won't continue to fall as fast as they have recently. Tom Edwards, an analyst at NPD Intelect, wrote in e-mail that he thinks the competition in the market has trimmed prices as far as they will go for now.

"There should not be any downward price movement until new models hit in the second and third quarter of next year," he wrote. "Even then, it will be a small decrease if any."

Alexandria resident Mike Ferrara hasn't gotten the benefit of any of these price cuts. He shelled out around $10,000 for a digital TV in 1998, when WETA was just about the only HDTV broadcaster in the area. But he says he has no regrets about the expenditure: Now he's got a pick of shows to watch every night, between CBS's over-the-air content and HBO and Showtime via his Dish Network receiver.

Ferrara had some friends over a while back to watch a Bruce Springsteen concert on HBO. "It was like sitting in the front row of Madison Square Garden -- I almost charged admission," he said.

He figures he's been responsible for the sale of at least half a dozen of the high-end TVs over the years to friends and colleagues who have seen his setup and found themselves reaching for their wallets.

"Once you see it, you want it. Period," he said.

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