ECONOMIC BENEFITS OF

MULTICASTING MUST CARRY

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TABLE OF CONTENTS

Executive Summary ..... **i**

Introduction **1**

Need For Guaranteed Cable Distribution Before Investment by Local Broadcasters 4

Business Risks when Expanding Output 4

Local Cable System Incentives for Non-Carriage 6

Nature of Local Television Stations' Services 7

Types of Local Programming Possibly Provided by Over-the-Air Broadcasters 9

Expansion of news related programming 9

Expansion of more specialized programming 12

Benefits to Local Video Marketplaces from Additional Competition 13

Benefits to Local Economies from Additional Programming 15

Benefits of Additional National Programming 17

Conclusion **19**

Executive Summary

This paper will discuss the economic benefits resulting from a must-carry regulation providing for the carriage of local over-the-air television stations' multicast signals. We will discuss these additional potential services and demonstrate the need for certainty in this carriage by broadcasters to invest in expanding the services. Local over-the-air television broadcasters can uniquely and efficiently provide to their local communities certain types of additional programming. Some services that have been suggested include:

- More in-depth news/information programs;
- Regionalized news programming; and
- Programming targeted to specific demographic groups.

Unfortunately, there is no guarantee that local cable systems will carry this additional programming without a carriage obligation. Gaining distribution to the cable households is essential for success given the still dominant position of local cable systems. Cable systems still control more than 70% of all television households in nearly 75 markets and more than 60% in over two-thirds of all television markets.

These local cable systems are actively competing with the local television broadcasters in local advertising markets and are owned by Multiple System Operators (MSOs) that also have significant ownership interest in cable networks competing with local television broadcasters in attracting audiences. Therefore, the local cable systems have a tremendous incentive to *not* carry these additional programming, even if local consumers value this programming.

With a multicast must-carry requirement, broadcasters will have the certainty of being able to reach their local audiences with additional programming. Increasing the number of programs produced by these broadcasters will lead to benefits in a number of areas:

- Local viewers will have additional video programming choices, some of which may be very local in nature;
- Local consumers will see more competition in their video services markets; and
- Local businesses will have additional venues to place advertising, some of which may be very targeted to reach groups targeted by these companies.

At the same time providing some of these direct benefits to local communities, a carriage requirement may strengthen some local over-the-air television stations, especially those located in medium and small markets with limited advertising revenues. These stations are facing increasing competition both in attracting viewers and in selling advertising time. Under the present local ownership rules, many of these stations are constrained in reaching an efficient scale to effectively compete in this market. By providing these additional multicast services these stations can become more efficient, and at the same time, secure their financial future.

This prediction of new and competing video programming emerging from multicasting local television stations has a historical basis. As a result of the passage of the 1992 Cable

Consumer Protection Act which legislated must-carry obligations, there has emerged many more national over-the-air networks providing programming and has subsequently strengthened many local over-the-air television stations. The resulting increase in competition in both the national and local television markets has led to benefits for both consumers and advertisers trying to reach these markets.

Economists have long pointed out certain characteristics of local television station service that affect whether the socially optimal level of service are provided. First, the costs to produce and provide television programming, while often large, does not vary much with the number of viewers. The numbers of viewers need to be maximized to generate the necessary advertising revenues to, at least, cover the costs of that programming. With access to these cabled homes, the local stations would have some chance in generating enough revenues to cover the additional costs of the multicast video signals programming.

Second, consumers do not directly "pay" for this product, and thus, there is no mechanism for consumers to register their level of satisfaction. Certain programming that local over-the-air television stations may offer on the multicast signals may confer tremendous benefits to local viewers. Since consumers cannot "pay" the local stations for those benefits, there could easily be less provision of this programming than socially desirable. If broadcasters cannot reach all of the local households and generate at least some advertising revenues from that necessary reach, these services may not be provided even if it generates substantial consumer benefits.

In conclusion, these additional programming choices will confer the obvious benefits to local consumers of increased video choices. At the same time, these additional programs will inject additional competition in the local MVPD markets, foster the development of more programming services, and provide additional affordable advertising time opportunities for local businesses. Without the guarantee of mandated carriage, however, the full benefits likely will not result.

ECONOMIC BENEFITS OF MULTICASTING MUST-CARRY

Introduction

One of the most obvious developments in the media marketplace is that the level of competition facing local over-the-air television broadcasters is incredibly higher than even just five years ago. The number of cable networks has continued to increase, gaining access to consumers through many more distribution channels. This recent explosion of distribution channels of video programs is only going to continue as more consumers acquire the broadband access to the Internet, and as other avenues (such as video streaming to cellular phones) become available. Simply put, more video programming opportunities are out there and will continue to increase, providing more competition for viewers' time as well as the selling of advertising.

Local over-the-air television broadcasters are still an important force, however, in this larger and expanding video marketplace. Many of these stations have established operations providing video content popular with the local audiences, and in some cases, unique to these operations (e.g., local news programming). Stations will be able to maintain this position in this market only if they are able to efficiently compete and provide needed services. Unfortunately, many local television stations have limited means to operate at efficient levels, especially those stations located in medium and small markets.

One alternative to combining local stations and operating at more efficient scales is for these stations to start providing additional streams of video programming. Utilizing the multicasting capabilities of their digital television signals may allow local over-the-air television broadcasters to increase the "scale" of their operations by providing additional services to their

local communities. By having more program streams these broadcasters will be able to spread some of their fixed costs over more “output” and take advantage of some of their specialized resources. This multicasting option is just one of many options that were planned for in the flexible digital television system adopted by the FCC.

Increasing the number of programs produced by these broadcasters will lead to benefits in a number of areas. Local viewers will have additional video programming choices, some of which will be very local in nature. Local consumers will see more competition in their video services markets. Local businesses will have additional venues on which to place advertising, some of which will be very targeted to reach groups targeted by these companies. Overall, the level and degree of local video services competition will be increased.

That guarantee of access to local video audiences is not possible, however, given the situation as it exists today. Many consumers do not have access to outdoor antennas and/or do not have digital receivers/tuners to pick up the multicast video streams over the air. Hence, without any carriage by local cable systems, much of the local audiences of local over-the-air television broadcasters may not be able to view these additional services, or even be aware of these services being available.

Consequently, at the present time the provision of additional video services is constrained due to the uncertainty of carriage by local cable systems. Local broadcasters know that local cable systems have a tremendous incentive to **not** carry these services, even if there is some consumer demand. Local over-the-air television broadcasters, therefore, are apprehensive in investing the needed resources to develop these additional services without some assurance that

enough viewers will have the opportunity to view these programs. A regulation requiring carriage of these multicast signals would provide that assurance.

This paper will discuss the economic benefits resulting from a must-carry regulation requiring the carriage of these additional services and providing the certainty necessary for broadcasters to invest in expanding the services. Local over-the-air television broadcasters can uniquely and efficiently provide their local communities certain types of uniquely local programming. We will review these types of programming to highlight the efficiencies inherent in producing this programming. We will also review the resulting economic benefits that may occur in local economies from these new services.

Need For Guaranteed Cable Distribution Before Investment by Local Broadcasters

Business Risks when Expanding Output

Businesses in many industries often take considerable risks when investing to expand their output. Whether it is expanding the output of established products into new geographic areas or whether it is the introduction of new, related products, businesses do not know whether the consuming public will purchase that increased output and make that investment successful. In order to improve the likelihood of success, businesses will allocate the necessary resources to insure an adequate increase in distribution and marketing.

Economic and management theory suggest that businesses contemplating expansion of their output need to know that their potential and existing customers have the ability to consume this increased output, if they so desire. Manufacturers have to know that their distribution channels (i.e., trucks and rail delivery) can handle the increased output. Service providers have to know that there will be enough outlets (e.g., franchises) to provide the increased output. In like fashion, local over-the-air television broadcasters need to know that the local viewing public will have the ability to "consume" this increased output (e.g., new programming), if they also so desire.[1]

[1] Broadcasters are well aware of the need for access to these cable households. In a recent survey of commercial broadcasters, 79.2% of stations who are presently or planning to multicast stated that they would be highly unlikely or unlikely to provide these types of services in the future if these services were *not* carried by their local cable systems. July 2005 Survey of Television Stations' Multicasting Plans, National Association of Broadcasters, Research and Planning.

Local over-the-air broadcasters will face similar competitive risks when considering whether to expand output by providing additional programming on their digital signals. They will not know whether the consuming public, faced with all of their choices in the expanding video marketplace, will consider this additional programming as differentiated programming. Local broadcasters will need to choose programming that will be different than all of the programming now available. They will need to allocate resources to market this expanded programming so as to distinguish it in the minds of their local communities.

Yet, even if they are successful in selecting and marketing the differentiated new programming, over-the-air television broadcasters still face a distribution hurdle – the local cable system. They cannot just adopt the "Fields of Dream" approach – Build It and They Will Come – since most local consumers will not be able "to come," not be able to receive these programs. With the widespread adoption of cable services a large percentage of viewers rely on the local cable system to deliver all of its programming. [2] If not carried by the local cable systems, these additional signals will not be viewable in cable homes. Many of these homes do **not** have antennas attached to their primary viewing receiver.[3] Additionally, even after the digital

[2] According to Nielsen Media Research, the highest May 2005 cable penetration rate is 90% for Honolulu, HI, followed by Hartford, CT, Springfield-Holyoke, MA, Boston, MA, and Palm Springs, CA all of which have cable penetration rates 85% and above. In fact, there are 72 television markets where cable penetration is 70% and higher, and 146 markets where cable penetration is 60% or higher.

[3] This lack of outside antenna availability was cited by the Supreme Court in the Turner case upholding the Must Carry rules included in the 1992 Cable Consumer Protection Act.

transition is over, many households will still only have analog receivers[4] which will be unable to receive the additional multicast programs from over-the-air television broadcasters. Cable households with analog receivers will be relying on the local cable systems to down-convert the digital programming of local broadcasters to view. If cable systems do not carry the additional services being offered by local over-the-air broadcasters, this large portion of the local communities will not have access to this programming, even if they have a connected antenna.

Local Cable System Incentives for Non-Carriage

In addition to being the largest, and in many cases dominating, conduit for access to programming in many local communities, local cable systems also are competitors to local over-the-air television broadcasters in those markets. First, many of these cable systems are owned by large Multiple System Operators (MSOs) that also have ownership interests in other cable networks. Consequently, they would want to reduce the competition for attracting audiences even if the additional video services (e.g., additional programming from local television stations) are desired by local viewers. Second, local cable systems are actively competing with local over-the-air television broadcasters in the advertising marketplace. According to the Cable Advertising Bureau, local cable systems will generate $5.6 billion in advertising revenues in 2005 and this amount is growing very quickly.[5]

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[4] According to Kagan Media Research predictions, there will still be 37.0 million households with analog receivers by 2008. *Digital Television*, May 17, 2005, Kagan Media Research.

[5] Cable Advertising Bureau, www.onetvworld.org/?module=displaystore&story+id=1171&format=html.

Competing with local over-the-air broadcasters for viewers and for local advertising revenues while also controlling the distribution of video signals (i.e., deciding what services to carry) leads to a tremendous incentive for local cable systems to not carry programming originated by local over-the-air broadcasters. Additional local programming generated by local over-the-air television stations will divert viewers away from vertically controlled cable networks and lead to additional inventory of advertising time that these local stations will make available for sale to local advertisers. This additional inventory will be in direct competition with the large inventory of advertising time now being sold by local cable systems. In fact, given the nature of some of this possible additional programming, such as niche programming targeting specific demographic groups, the additional programming inventory of advertising time may be very competitive with the existing cable niche network programming being carried.

Nature of Local Television Stations' Services

Not having access to these cable households will be a tremendous disincentive for local over-the-air broadcasters due to the type of product these stations produce and sell. The costs to produce and provide television programming, while often large, does not vary much with the number of viewers. It is essential, therefore, that the numbers of viewers are maximized in order to generate the necessary advertising revenues to, at least, cover the costs of that programming. Without having access to these cabled homes, the multicast video signals will be severely disadvantaged in generating enough revenues to cover the additional costs of that programming.

Another characteristic of local over-the-air television is that consumers do not directly "pay" for this product. There is no mechanism for consumers to register (i.e., pay for) their level of satisfaction. Some programming could generate tremendous benefits to local consumers and

the marketplace does not adequately measure that intensity of satisfaction. As a result, economists have always questioned whether the marketplace leads to an optimal level of service for local over-the-air television service. This recognition of the possibility of under-provision of these services has been the underpinning for some regulations (e.g., public service obligations), may also support a multicast must-carry regulation.

These specialized aspects of the service provided by local over-the-air television broadcasters highlights the need for guaranteed access, as the possible socially optimal level of providing multiple streams of video programming may not be provided. If broadcasters cannot reach all of the local households and generate at least some advertising revenues from that necessary reach, these services may not be provided. Certain programming that local over-the-air television stations may offer on the multicast signals may confer tremendous benefits to local viewers. Since consumers cannot “pay” the local stations for those benefits, there could easily be less provision of this programming than socially desirable.

Types of Local Programming Possibly Provided by Over-the-Air Broadcasters

In order to fully evaluate the economic benefits resulting from increased output by over-the-air broadcasters (i.e., the multicasting of additional programming), it is essential to describe the types of programs that are being considered. After some of those programs are described, it will be more evident of the benefits associated with the efficiencies generated by broadcasters and the increased competition in the local marketplaces. Broadcasters are well suited to provide this additional programming, both in producing it and generating the requisite revenues, to make them sustainable in the long run.

Expansion of news related programming

Prominent among the types of programming local over-the-air broadcasters could provide on these multicast signals are programs associated with their local news departments. Many local stations have invested in extensive news operations[6] that presently provides several hours of news programming a day. One option for multicast programming on these television stations is to replay some of these many hours at different times, possibly with additional live inserts. Consumers unable to watch that programming at the original scheduled time will not have it available. By having this increased "output," local over-the-air television broadcasters could spread the costs of producing that programming, thereby increasing the efficiency of that operation.

[6] The average ABC, CBS, and NBC affiliate spent $3.4 million in news department costs in 2003, 29.1% of their annual operating costs. (*2004 NAB/BCFM Television Financial Report*, p. 37) In some of the largest markets these costs exceed over $28 million. (Ibid., p.39)

Even with that large number of hours presently being aired on many stations, a considerable amount of reporting and footage do not make it on the air, given the present scheduling time constraints of local television stations. Reporters and producers can utilize, without much additional costs, that footage to possibly develop additional, more in-depth programming about local and national events.

That additional programming may be focused on news and information related to one geographic area of a television market. It may not be economic viable for a television station to concentrate on one area on the main channel programming for 30-60 minutes, but regionalized news programming on several of these multicast channels may make sense. Here again, "output" is being increased, increasing the efficiency of those operations.

A good example of where this might work is in the Paducah-Cape Girardeau-Harrisburg-Mt Vernon, KY-MO-IL television market, which encompasses a significant amount of four jurisdictions (KY, MO, IL and parts of TN).[7] A local television station may decide to have regionalized news programming for three or four of these areas airing on their multicast signals at the same time. These multicast regionalized news programs may be very prominent during election period. Clearly, during these election cycles, viewers *not* in the jurisdictions with elections will not be interested in the pre-election dialogue and television stations would be apprehensive to cover extensively these discussions. With the regionalized news programs that problem is solved and campaign issues may receive further coverage. Finally, as discussed later,

[7] Of the total population in the Paducah-Cape Girardeau-Harrisburg-Mt Vernon, KY-MO-IL television market, 35.3% are located in Illinois, 24.5% in KY, 32.5% in MO, and 7.8% in TN.

having more regionalized programming might open up new possible advertisers who are focused on only one of these areas.

In addition to time shifting existing news programming and providing more in-depth coverage of events, these news departments may be able to utilize these multicast signals as an avenue to continuously provide information. For example, the local station may use the multicast signal to provide continuous updates of local weather conditions or continuous information about local sports teams. Having these additional venues to transmit this information, and generate associated advertising revenues, will enable local over-the-air broadcasters to more efficiently utilize the resources (e.g., weather notification systems and news staffs).

If local over-the-air television broadcasters better utilize their existing resources, they may be able to sustain the additional news/information services over the long run, something that other operations may not be able to accomplish. Coverage of local news and events is very expensive both in the required human resources as well as the necessary capital equipment. Since many local stations have invested in these resources, they are best suited to provide these additional services. This ability may be most evident in medium and small markets that already are challenged to provide these services given their limited advertising bases.

Expansion of more specialized programming[8]

Another genre of additional programming that could be offered by local over-the-air television broadcasters is ethnic programming. Specialized programming targeting specific demographic groups that would not generate enough audiences (and subsequent advertising revenues) to merit airing on the main channel might be economically viable if aired on one of the multicast streams. Some of these stations may already have programming of this type, looking for an effective and economically sensible way of airing.

Recently, some local general managers from Telemundo stations wrote to Senator Kay Bailey Hutchison suggesting this same point: "They argued that they'll be able to bring more choice and local programming to their viewers." [9] Other ethnic groups, constituting a noticeable share of local populations, may also be served by programming that would not be profitable to air on the main channel. For example, there are seventeen television markets that have Asian populations of between 4 % and 11.1%.[10] In those markets, it may not be viable for a television station to air programming on their main channel targeted towards this group. Yet, it may be

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[8] In addition to the news related programming discussed above and the ethnic programming discussed in this section, some broadcasters are developing other types of programs to air on their multicast signals. According to the NAB July 2005 Survey of Television Stations' Multicasting Plans, these programs include Church Services/Religious programming, Public Affairs and Community Affairs programming, Coverage of Community Events, and Political Events and Meetings, High School and College programming (sports and non-sports), Educational/ Children's programming, and Cultural Events and Local Arts and Entertainment programming

[9] "Telemundo execs push for multicast must-carry," *TVBR's Daily Morning Epaper*, July 22, 2005.

[10] Both Dallas-Fort Worth, TX and Juneau, AK have 4.0% population of Asian descent, while Los Angeles, CA has 11.1% of their population of Asian descent.

economically viable to air programming targeting that demographic group on one of the multicast signals in those markets.

Furthermore, many larger ethnic markets,[11] such as the Hispanic population, are actually very localized in nature. For instance, the Florida Hispanic population is comprised largely of people of Cuban descent, while those of Mexican heritage comprise a large percentage of the Hispanic populations in Texas and California, while other Hispanic communities in other areas of the U.S. consist largely of people of another specific heritage, such as Salvadoran or Puerto Rican. Each of these communities retains its own distinctly local culture and identity. Local broadcasters' multicast capabilities can be a perfect vehicle to address each of these unique local groups by providing more specialized programming for these subgroups. This additional programming can result not only in an enhancement to the cultural, informational, and entertainment opportunities available to these audiences, but it can also spur other areas of economic development in these communities in terms of jobs creation and new commerce, as will be discussed below.

Benefits to Local Video Marketplaces from Additional Competition

These types of additional programming discussed above, as well as other programming that could be produced by local television stations, will certainly strengthen the ability of these stations to compete in the video marketplace. At a time when local cable and direct broadcast satellite systems offer hundreds of programming channels, local over-the-air television stations

[11] According to the U.S. Census Bureau, this larger Hispanic population already constitutes 41.3 million people (14% of the total U.S. population), and is expected to grow to 60 million by 2020.

are only able to provide one or two signals (e.g., duopoly situations). Consequently, local viewers, demanding more options, subscribe to their local cable monopoly or one of the two DBS providers.

If local over-the-air television stations can provide multiple signals over a sustained period of time, there may be an injection of new competition in the local multichannel video program distribution (MVPD) markets. Consumers, now being provided multiple signals from their local television stations may opt not to subscribe to, or cut back on some of, these other MVPD services. In order to retain existing customers or attract new customers, these other MVPD services may respond with better services or lower prices.

The requirement of carriage of multicast signals from local over-the-air television stations in this situation is similar to the program distribution requirements of cable-owned program services included in the 1992 Cable Consumer Protection Act, and recently renewed by the FCC. In that case, competition in the MVPD marketplace was enhanced by insuring that popular video services were available to new MVPD services. In this case, competition in the MVPD marketplace may be enhanced by insuring the economic sustainability of these new additional services.

Benefits to Local Economies from Additional Programming

In addition to the benefits associated with local consumers having greater choices of programming through local over-the-air television stations' multicasting, local businesses and the overall local economy will also benefit. If these stations start airing some of the types of programming discussed above, it will open opportunities for new advertisers to get their messages out in a more efficient manner. Some advertisers may not find it beneficial to air commercials reaching the entire local television market, though would find it valuable to reach a subset (e.g., region, demographic groups) of that larger potential audience.

A numerical example of the potential savings to local potential advertisers of easy sub-dividing of the total audiences can demonstrate this point very clearly. In the Washington, DC local television market, 9.5% of the total population resides in the District of Columbia. While advertisers who are exclusively in Washington, DC do buy some advertising time on local over-the-air television stations, they may be apprehensive in making those purchases since they will be "paying for" the entire market, the vast majority of which is not served by their business. Alternatively, with programming that is focused on events in Washington, DC airing on one of the multicast signals, the advertiser may be able to afford purchasing advertising time.

Of course, local cable systems are already providing video advertising opportunities on a regionalized basis. Given that they are the only opportunity for that delivery, any introduction of competition could easily lead to lower prices for that service. Lowering prices that are charged

for advertising time for small, regionalized businesses may provide a strong boost for their growth.[12]

This boost for stronger economic growth on a local basis holds true with the other types of programming discussed above. Once again, in the Washington, DC television market the Asian community constitutes 7.0% of the total population. Businesses that target that community generally would not want to spend the resources on local television advertising reaching the entire community. Instead, they probably are utilizing other media targeting that special community. If local over-the-air television stations start airing programming on their multicast signals targeting some of these groups, these local businesses will have additional opportunities to promote themselves.

Having additional opportunities to compete in their advertising marketplaces has the added possibility of strengthening many local over-the-air television broadcasters. Facing the recent entry of additional competitors, while at the same time investing in new digital equipment, has severely strained these broadcasters, especially those located in the medium and small markets.[13] The future of revenue growth of advertising revenues for these local stations is limited, given their existing level of services.[14] With potential additional revenues resulting from

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[12] Another group of advertisers that may benefit from these regionalized broadcasts are candidates for public office. Like businesses in only one jurisdiction of a television market, they do not want to pay for reaching the entire market.

[13] For example, over half of the ABC, CBS, and NBC affiliated television stations in markets ranked 111 through 120 generated *losses* of over $224 thousand, with 25% generating *losses* in excess of $900 thousand in 2003. *2004 NAB/BCFM Television Financial Report*, Table 30, National Association of Broadcasters.

[14] BIA Financial Network estimates that the average yearly increase in local television station advertising revenues will be only 3.5% between 2004 and 2009.

additional multicast services, these local over-the-air television stations may become more financially secure in providing services to their communities by increasing their revenue growth by a few percentage points.

Benefits of Additional National Programming

Though the examples cited above have all been programming originated by the local over-the-air television stations, additional programming may also be developed by national companies who then will sell/barter that programming to the individual stations. Such programming could be programming targeted to specific demographic/ethnic groups that would be too expensive for any one television station to produce, but would be financially viable if the programming was syndicated to multiple areas.

Using the Asian oriented programming example discussed above can make this point very clear. Stations in those seventeen markets may find there are many potential viewers for this type of programming. Yet, the costs to produce quality programming targeted for this group may be too expensive. It may be feasible for a national programming source, however, to develop programming oriented towards that group and sell it to stations in these seventeen markets to air on one of their multicast signals. If that was the case, 54% of the total Asian population in the U.S. would be able to receive[15] this specialized programming that they may not have otherwise.

The development of national programming arising from requiring the carriage of multicast signals of local over-the-air television stations has historical evidence in support. For the years through the mid 1980s, there was a common belief that there would not be a major

[15] Assuming that this programming is being carried by local cable systems.

fourth over-the-air network. Part of that pessimism was due to the lack of available quality outlets in many markets. Local television stations not affiliated with any of the existing three major networks in many of these markets were UHF stations of inferior technical characteristics. Once these and other newly started television stations were granted must-carry status, it became more feasible to start and develop new networks and acquire affiliation relationships with local over-the-air television stations.[16] Now we have seven English language and four Hispanic language over-the-air television networks providing programming that has strengthened many local stations and increased competition in these local markets.[17]

There is ample evidence that the local stations associated with these new networks are now an important part of the local television market. From BIA Financial Network's own estimates of individual station revenues, stations affiliated with the emerging networks (Fox, WB, UPN, Univision, and Telemundo) experienced revenue growth of over 80% since 1992 when the must carry regulations were legislated. They now comprise over a third (33.9%) of the total revenues generated by local television stations. On the network level, the three newest English-language networks (Fox, UPN, and WB) recently accounted for 25.8% of the 2005/2006 Network Upfront revenues. [18] Clearly, these local stations and national networks are providing stronger competition in these markets, caused in large part, by the passage of the must-carry

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[16] There are nearly 400 full-power local over-the-air television stations that are affiliated with either the Fox, Pax, UPN or WB networks. Additionally, there are over 150 over-the-air television stations affiliated with one of the major Hispanic networks.

[17] There are additional reasons for the emergence of these national networks such as the vertical integration with production facilities. Nevertheless, there was and continues to be a need for guaranteed delivery of these networks' programming that is provided by the existing must carry rules.

legislation. A similar boost in competition could easily be expected with the emergence of other national and local programming sources to supply the multicast streams.

Conclusion

The video marketplace in most local markets are complex environments with several and newly entering different players providing an increasing amount of options. Local over-the-air television stations are important players in these markets though they are finding maintaining their positions more challenging. At the present time, the ability to meet those challenges is severely limited due to the local ownership rules, and the present lack of carriage requirements for multicast signals.

Without the mandate to carry additional signals, local cable systems have been loathe to provide those signals to their customers. Cable systems still have tremendous incentives not to carry these multicast signals in order to retain their positions in their local markets. These local cable systems still control overwhelming shares of these local MVPD markets, even with a substantial increase in competition. Carriage on these systems is still essential. Consequently, local over-the-air television stations are hesitant to invest the necessary resources to develop the additional programming for which they are well suited.

[18] *Jack Meyers Business Report*, June 7, 2005.

Certain types of additional programming that may be offered on these multicast signals – expanded news/information programming and programming targeted to specific demographic groups – were discussed in this paper. Local over-the-air television stations have tremendous advantages in efficiently developing this programming and making them sustainable. In many medium and small television markets, providing these additional programs may be the only opportunity for these local television stations to efficiently utilize their operations.

These additional programming choices will confer the obvious benefits to local consumers of increased video choices. At the same time, these additional programming may inject additional competition in the local MVPD markets, foster the development of more national programming services, and provide additional affordable advertising time opportunities for local businesses. Without the guarantee of mandated carriage, however, these benefits may not result.