



GOVERNMENT OF THE DISTRICT OF COLUMBIA
EXECUTIVE OFFICE OF THE MAYOR

Report on Cable Prices
In the District of Columbia
2014

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Introduction

The District of Columbia Office of Cable Television (“OCT”) is the local franchising authority for cable television. OCT’s mission is to regulate the provision of cable television service in the District of Columbia; protect and advance the cable service-related interests of the District and its residents; and, produce and cablecast live and recorded video and other programming by way of the District’s public, educational and government (PEG) cable channels. As such, OCT has two main functions: (1) enforcing the District’s cable franchise agreements and the relevant District laws and regulations; and (2) support and production of the District’s cable television programming.

With respects to its local cable television regulatory authority, the scope of that authority is limited. The bulk of OCT’s regulatory authority centers on customer service and ensuring compliance with the District’s franchise agreements. With respects to production, OCT produces hundreds of hours of programming each year. Driven to keep residents informed about the happenings of their city, much attention and focus is given to programming for the Council meetings, Mayoral addresses, and current events throughout the city. The film and production team work tirelessly to provide current and relevant programming and topnotch video footage of events through its 3 cable channels (DCC, DCN and its educational cable channel, the District Knowledge Network (DKN)) so that District viewers are not only informed, but entertained as well.

Background

The purpose of this report is to provide a synopsis of how cable prices in the District compare to the rest of the Nation and, through that comparison, determine whether or not the District has benefitted from having three cable television providers. Therefore this report focuses on two aspects of OCT’s mission: (1) OCT works to create and maintain an economic and regulatory

environment that promotes competition in the cable television industry in the District; and (2) OCT works to attract the deployment and maintenance of advanced cable services in the District. As part of this mission, OCT has been tasked with encouraging and fostering a cable television environment that will be conducive to quality service at favorable prices. Much of the discourse, both nationally and within the District, has focused on the cost of cable television. As such, the question within the District has become how does the District's cable prices compare to the rest of the country and how can we ensure that we minimize the impact of rising cable prices on District residents.

It was with this in mind, keeping cable prices competitive, that the District agreed to grant a cable television franchise to Verizon in 2009. The belief, at that time, was that while the District already had two cable providers, Comcast and RCN, adding a third provider would further increase competition. The District hoped that, because of the competitive environment created by having three major cable television providers in the District, cable prices would trend towards the low end of the market, and thus favorable. As often expressed by FCC Chairman, Tom Wheeler, promoting an environment where competition healthy is the one of the best ways to protect consumer interest.¹ Now, a little more than four years after approving the Verizon Cable Television Franchise Agreement, many are curious as to whether the increase competition is yielding savings for consumers in the District.

As mentioned earlier, prior to the entrance of Verizon to the District's cable market, the District's cable television providers were RCN and Comcast. Based on the homes passed numbers² for the 2009 year, the two cable providers passed an estimated 471,477 homes in the District. As of 2013 and after the addition of Verizon to the District cable market, there are now approximately 583,439 homes that have access to cable television, which represents a 19%

¹ Prepared Remarks from FCC Chairman Tom Wheeler, Silicon Flatirons, University Colorado Law School, Boulder Colorado, February, 10, 2014, available at <http://www.fcc.gov/leadership/tom-wheeler-speeches>.

² Home passed numbers indicate the number of homes, dwellings or other buildings that a cable system passes, making cable accessible to that home, dwelling or building. Home passed numbers do not accurately reflect the number of cable subscribers, as some of the potential customers may not subscribe to cable, or there may be multiple cable subscribers in one home or dwelling, such as apartment buildings or other multi-dwelling units.

increase in homes passed. While both RCN and Comcast have attributed the growth in home passed numbers, the Verizon has accounted for the greatest percentage of the increase in homes passed, as they have steadily continued the build-out of their cable television service in the District. Undoubtedly, we would expect Verizon to have the greatest impact on the increase in homes passed numbers, as they are the newest cable television provider and have specific build-out requirements under its current franchise agreement. However, in assessing whether or not the entrance of Verizon into the District cable television market has benefitted the District, we must take into account that Verizon accounted for approximately 70% of the increase in homes passed numbers. According to the most recent census data, the District experienced a population growth of 7%, from 601,767 to 646,449, and added approximately 382,680 housing units.³ Based on the fast increase in population growth and addition in housing units, which presumably represent an increase in cable customers, one would expect that the increased demand would naturally lead to a correlation in increased prices for cable television services. What we have found is that this has not been the case.

Comparative Trend in Prices for Basic and Extended Basic Cable

In looking at the cable prices in the District and determining how the District compares across the United States, OCT focused on basic cable service and extended basic cable service. The reason for this is twofold; first, basic and extended basic service are the service levels that are generally used as the pricing benchmark within the industry. Second, beyond these two services, it becomes difficult to determine pricing because additional services often involve package, or promotional pricing, which can be inconsistent across cable providers and regions.

³ Source: U.S. Census Bureau, 2008-2012 American Community Survey, website can be found at <http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk>, (last visited October 24, 2014).

Based on this criterion, during the time period between 2009 until 2013, the average District cable price for the basic tier was \$16.72 (this was also the average price of cable television in the District in 2013). When compared to the information provided in Table 1, we see that this is well below the national average for 2014, and falls well below the national average in 2013. Despite steady growth in basic cable prices nationally, prices in the District from 2009 through 2013 remained level.

Table 1⁴									
Historical Averages									
1995-2013									
Year	Basic Svc. Price	Expanded Basic Service					Next Most Popular Service and Equipment	CPI	
		Price	Channels		Price per Channel			All Items	Cable
			No.	Index	Dollars	Index			
1995	---	\$22.35	44.0	100.0	0.600	100.0	---	100.0	100.0
1996	---	\$24.28	47.0	106.8	0.610	101.7	---	103.0	106.9
1997	---	\$26.31	49.4	112.3	0.630	105.0	---	105.2	114.9
1998	\$12.06	\$27.88	50.1	113.9	0.650	108.3	\$38.58	107.0	122.6
1999	\$12.58	\$28.94	51.1	116.1	0.650	108.3	\$38.43	109.3	127.0
2000	\$12.84	\$31.22	54.8	124.5	0.660	110.0	\$39.64	113.3	132.9
2001	\$12.84	\$33.75	59.4	135.0	0.600	100.0	\$45.33	116.4	139.1
2002	\$14.45	\$36.47	62.7	142.5	0.660	110.0	\$46.59	118.1	147.8
2003	\$13.45	\$38.95	67.5	153.4	0.650	108.3	\$49.03	121.2	157.1
2004	\$13.80	\$41.04	70.3	159.8	0.660	110.0	\$51.76	123.5	163.1
2005	\$14.30	\$43.04	70.5	160.2	0.620	103.3	\$56.03	127.2	169.6
2006	\$14.59	\$45.26	71.0	161.4	0.650	108.3	\$59.09	132.2	174.4
2007	\$15.33	\$47.27	72.6	165.0	0.670	111.7	\$60.27	135.0	179.0
2008	\$16.11	\$49.65	72.8	165.5	0.680	113.3	\$63.66	140.8	183.9
2009	\$17.65	\$52.37	78.2	177.7	0.710	118.3	\$67.92	140.8	186.5
2010	\$17.93	\$54.44	117.0	204.7	0.560	110.3	\$71.39	144.5	191.9
2011	\$19.33	\$57.46	124.2	217.3	0.569	112.0	\$75.37	146.9	192.0
2012	\$20.55	\$61.63	149.9	262.2	0.505	99.4	\$78.91	151.2	199.8
2013	\$22.63	\$64.41	159.6	279.2	0.484	95.3	\$81.64	153.6	206.5
1995-2013 Total and Compound Average Annual Rate of Change									
Total	---	188%	---	179%	---	-5%	---	54%	107%
Average	4.3%	6.1%	---	5.9%	---	-0.3%	5.1%	2.4%	4.1%

⁴ Report on Cable Industry Prices, DA 14-672, Federal Communications Commission, released May 16, 2014

Perhaps more compelling, when looking at the average price of expanded basic cable service in the District for 2013, we found that the average cost for this service was \$53.21. This price is well below the National average price of \$64.41 for the equivalent service. What is compelling about the prices for expanded basic service is that, not only is expanded basic service more popular amongst cable subscribers, but pricing relies entirely upon the market demands because it is not subject to local or Federal regulations. Therefore, we can attribute the prices for expanded basic cable service in the District to the effects of market demands for such services, and the necessity for the cable provider to compete amongst each other to provide these services to District residents.

Triple Play Packages

OCT also looked at how the District ranked among other areas of the country with respects to triple-play packages offered in the District. Triple-play packages, which are understood in the industry as packages which typically consist of video, telephone and internet service, are popular because many cable customers desire more than just video and that these services are often sold by cable providers in bundled services as a way to both win customers they may not otherwise have serviced. OCT believed that this information is insightful because of the apparent popularity of triple-play packages in the District, and based on OCT's belief that, because these packages are popular, they may be more sensitive to market demands than other types of cable services provided.

Using data collected from the New America Foundation, OCT compared the triple-play packages provided by the three cable providers in the District with the other cable providers throughout

the Nation identified in the New America Foundation data set.⁵ As seen in Table 2 below, the prices for the popular triple-play bundles in the District were among the lowest when compared to other cities in the Nation.

It should also be noted that of the four major cities with lower cable prices in the country, New York, NY, Los Angeles, CA, San Francisco, CA and Washington, DC, only New York, Los Angeles, and Washington have more than two non-municipal cable providers. While there are certainly many variables that go into costs for the bundled services provided in triple-play packages, given that we find some of the lowest prices in cities ranked among the highest cost of living areas, it is clear that greater competition in these areas have benefited consumers in terms of the costs for these services.

Rank	City	Provider	Price
1	Bristol, VA	BVU	\$54.79
2	Lafayette, LA	LUS	\$65.39
3	Washington, DC	RCN	\$68.30
4	Los Angeles, CA	Verizon	\$69.99
4	New York, NY	Verizon	\$69.99
6	New York, NY	Time Warner Cable	\$74.97

⁵ The data set was provided by the New America Foundation in its research paper, “The Cost of Connectivity 2013 Data Release: A comparison of high-speed internet prices in 24 cities around the world,” October 2013. While the research by New America Foundation focused on internet speeds, OCT used the information for the pricing of the triple play packages only.

7	Lafayette, LA	AT&T	\$79.00
8	Los Angeles, CA	Time Warner Cable	\$79.96
9	Washington, DC	Verizon	\$79.99
10	Chattanooga, TN	EPB	\$81.82
11	New York, NY	RCN	\$89.99
12	San Francisco, CA	Comcast	\$99.00
13	Bristol, VA	Charter	\$99.97
14	Kansas City, KS	Time Warner Cable	\$99.99
15	Los Angeles, CA	AT&T U-Verse	\$109.00
16	Kansas City, MO	Time Warner Cable	\$112.49
17	Washington, DC	Comcast	\$112.50
19	Lafayette, LA	Cox	\$121.22
20	Chattanooga, TN	AT&T	\$133.00
21	San Francisco, CA	Astound	\$134.00
22	Chattanooga, TN	Comcast	\$150.85

District Cable Prices versus Satellite Television

Throughout many conversations concerning the price of cable television in the District, often the question is raised as to how cable compares with DBS providers, colloquially known as satellite providers. In trying to find prices offered by DBS providers, OCT relied on the FCC's 2014 Report on Industry Pricing⁶, as prices for such services often fluctuate due to packaging offers which commonly change regularly. Because of this, along with the fact DBS providers are

⁶ Report on Cable Industry Prices, DA 14-672, Federal Communications Commission, released May 16, 2014

under the exclusive regulatory authority of the FCC, OCT found that the FCC is best positioned to obtain the most accurate pricing information.

As seen in Table 4 below, the average price of expanded basic cable service in the District is less than that of the same service nationally, and less than the average price of the two most popular DBS providers identified by the FCC. It should be noted that these prices do not reflect any potential promotions or package pricing that either of the video providers routinely offer. Each of these providers is known to provide discounted price points that last for a set period of time. Therefore, while the prices provided in the chart below reflect the average prices of each of the types of service providers without promotional pricing, OCT did not have available reliable information that would allow for a comparison of available promotions. Because OCT does not regulate the DBS providers in the District, we were not able to do a more comprehensive price comparison to include past years. Despite this, however, the experiences in the District do not give us any reason to believe this trend has not been consistent over the past four years.

Table 3			
Comparison District Cable Providers to Video Service Providers Nationally			
District Cable Average	Cable Average	DBS Provider Average	
Expanded Basic Service	Expanded Basic Service	DIRECTV Choice	DISH America's Top 120 Plus
\$53.21	\$64.41	\$63.99	\$59.99

Conclusion and Next Steps

In conclusion, the prices for basic service and expanded basic service, in the District have remained competitive, relative to the national average over the past four years. The price for basic service has hovered at \$16.72 while the price for expanded basic service has stayed

around \$53.21. In light of the fact cable prices have trended upwards by 6.1% during the period from 1995-2013, and 5.1% during 2013⁷, the prices for these same services remaining relatively stagnant should, at least in part, be attributed to the increase in competition during the past 4 years. It is likely that, despite the upward trend in cable prices and increasing demand for cable services, the entrance of Verizon as a third cable provider, along with Verizon's growth in its District footprint prevented the District from experiencing the national trend in prices. Furthermore, at least with respects to 2014,

Moving forward OCT will take a deeper look into the status of cable television in the District, and how District prices compare, not only nationally, but within the region as well. In so doing, OCT hopes to ascertain whether the District, by virtue of having three cable providers, enjoys any other benefits, beyond price benefits. OCT will also look into whether or not there are any unintended consequences of having three cable providers in the District. Finally, while it is clear that a main concern for District residents continue to be their cable bills, the District will take a closer look into what are the drivers of these concerns, such as cable prices, cable services, or other non-cable related services, such as telephone and internet, that are often associated with customer's cable bills.

⁷ *Id.*