

Washington Metropolitan Cable Club
Double Tree Park Terrace

June 25, 1998

As most of you know by now, my longtime friend John Evans, my hometown boy who really made good, delivers me body and soul – or rather I should say body and voice box for any speech he deems worthy of my presence.

Naturally, his Metropolitan Cable Club always qualifies.

In fact, he invited me way in advance weeks ago – yes, weeks ago – to volunteer as a standby speaker in the event the main invitee could not show.

I heard through the grapevine that two cable leaders, loaded with much more cable expertise than I, just could not make it at this time.

I understood Decker Anstrom could not make it as a speaker. He did not have time to write or even edit a speech. He was totally immersed in investigating and countering a rumor that a *neutral* cable Gore Commission is being proposed to objectively inquire into every means of how and where to de-regulate cable to a point that cable rates would not only be permanently frozen but substantially reduced. This inquiry ostensibly would serve both the public interest and congressional interest during an election year. Note the key regulatory camouflage words – “neutral” “objective” “de-regulate” “inquiry.”

Decker – is this the wishful thinking of a disgruntled regulatory few or merely the skeptical meanderings of a very senior but not ready-to-retire mind?

Then too, Steve Effros, loaded with cable expertise, couldn't make it because he is overwhelmed by mailing thousands of cable booklets. Very informative booklet, Steve. Thanks for the update, I'm now better informed, and put me on your priority list for two more copies.

Recently, I had a dream related to regulation and rates.

I dreamt I was in vigorous denial of ever having been a government bureaucrat . I even made sacrilegious statements about why should industries be subjected to micromanagement by politically appointed, etc. governmental officials not elected to represent the people and without any practical operating experience or business bottom line responsibility.

I repeated that everyone must remember that it was industry financing, entrepreneurship and inventiveness that was responsible for the technical and program advances in broadcasting and cable not government financing and certainly not government regulation.

In my dreams I said it is time for government to restrict itself to serving as an engineering traffic cop and anti-trust protector then get out of the way.

In my dreams I also reverted to my army jargon and shouted vulgar negative expletives about the over-regulatory fixative of --- and then the visages of former super-bright female legal advisors interjected with the often repeated warnings and orders “No, no Boss, don’t go there – this is a drastic “no no!”

So you will have to just guess or fantasize about what outrageous statements I had in mind.

Well, now it is time to get off dreams and on to reality – the reality of a major cable issue – rates.

I no longer have my super-bright personal staff to provide a legal filter for my free wheeling ad libs, but now there is no implication of government intrusion from my statements.

I can tell it like it is or as I see it without the legal and administrative constraints of a voting commissioner or chairman.

First, I'll give cable the same kind of advice I have been preaching to broadcasters for years. You must allot more time and resources for a coordinated, consistent public relations campaign.

You must do a better job of informing the public, your local civic and educational leaders. Also, your local and national government legislators and regulators about your many constructive public services, your upgrade capabilities and your great variety of diverse programming.

Inculcate good relations with the public in all your employees. Encourage them to become involved in community, civic and educational projects.

In short, first, do good. Be a responsible, considerate, progressive, civically involved business entity in your community. You have then established a valid basis for your positive publicity and public relations.

Good works and effective public relations by every local cable company can result in an immense positive cumulative effect with favorable implications for public, congressional and regulatory relations.

At this time it is particularly crucial that you clearly explain the justification for rate increases.

I'm impressed with the amazing cable advances in technology and varied program offerings since I first became a commissioner in 1974. I'm currently impressed with your fascinating potential for high speed data processing and Internet access and also your two-way capability without a dial-up requirement. You also have digital transmission and telephone service capabilities. Of course, there is a considerable upfront cost for upgrading and transforming these very desirable capabilities into operational realities.

I think it is time for government to recognize that cable has effective and growing competition in place. Also, further rate regulation of the cable industry could thwart investment into future advanced communications technology.

Last week a trade publication reported that the DBS industry expects to have 10 million customers by next year. Cable also faces increased competition from phone company overbuilds and wireless cable. Even Internet is a growing source of news and information. It is significant that apparently 30% or more people find free over-the-air TV a viable option. After all no one is forced to buy cable. Personally, I am forced to buy it only from personal taste. I find cable habit forming, perhaps to a point where another neutral objective government inquiry into cable's addictive powers is justified. Could it possibly over-stimulate the heart or cause brain damage? As a defensive measure, could the harmful effects be neutralized by a super-regulatory action of taxing cable beyond the average person's ability to pay? These outlandish meanderings indicate I have been a bureaucrat long enough to have been infused with the mindset of a born over-regulator, but relax, now I'll revert to my realistic dreams of denial.

Now back to reality. In a few distant areas where cable is required to receive local TV signals, I understand cable is meeting that need with smaller tier offerings at a reasonable price.

Some say satellite is disadvantaged because of inability to transmit local signals with local news, but maintaining the local TV antenna or an installation of an AB switch or its equivalent solves that problem.

I've learned from my FCC experience regulating cable rates that more government micromanagement of the cable industry causes problems. Our initial rate regulation order in 1993 was followed by across the board reduction and then more than a dozen reconsideration

orders. Virtually every order spawned confusing changes to the rules and mountains of additional paperwork.

Cable was hamstrung in its ability to market services to customers, add new networks or upgrade its facilities. New networks – like the History channel and the Sci-Fi Channel – faced serious initial set-backs in their roll-out efforts; others, like C-SPAN 2, had a hard time gaining new carriage opportunities.

Some people are now asking the FCC to go back to these times and change its rate rules yet again. I believe that any such change would have the same negative effect for consumers and regulators. It may look good politically but in the long run, it disserves consumer and advanced services.

Congress was right in deciding to deregulate cable programming service tier rates in March 1999. There'll still be regulation at the local level of basic service and of equipment prices. Congress' decision to deregulate the CPS tier has helped the cable industry gain the certainty it needs to raise capital and to provide the new and exciting services that customers desire. Operators are investing billions of dollars to upgrade their plant to provide their customers access to new programming, services and technology. Especially Internet. Imagine what re-regulation might do to Road Runner and At Home!

In order to continue to attract the investments necessary to provide these new offerings, operators need the certainty that can only come with an end to rate regulation. At the same time, cable operators owe it to the public and themselves to clearly explain the need for the officially sanctioned rate increases.

In general, cable operators are doing well. Stocks are up. And operators are taking advantage of their success by actively upgrading their systems so that they can offer even more programs and new services – such as high speed modems and telephony.

Investors are optimistic, just ask Microsoft and Compaq! And now, perhaps even AT&T! These companies clearly see cable as the gateway to the future, and have jumped on the bandwagon with a billion in Comcast, now billions in TCI and a 425 million dollar investment into cable online content provider Road Runner. This really is convergence.

But many challenges remain, including regulatory challenges. As you all know, the FCC is taking up the issue of must-carry. It would be hard to imagine a tougher issue. The Commission has set forth an aggressive schedule for the roll out of digital television, which has raised a whole set of controversies such as standard as HDTV, and 1080i vs. 720 progressive.

But it also brings the issue of must-carry of these new digital signals to center stage. During the transition to digital, broadcasters will have two signals, one analog and one digital. Should cable operators be required to carry both? And if so, at what cost? For cable operators that are channel locked, this could mean deleting channels that are popular with their customers. And would all of a broadcaster's signal have to be carried, including ancillary and supplementary services that could compete with services offered by the cable operator?

Having had my fill of Hobson's choices for over 23 years, let me say that I am glad that I am here, and not at the Commission, for this one! Because the Commission has the contentious task of balancing these competing concerns. So, I say to my friends of the present Commission "better thee than me."

And another word about rate regulation. Congress, decreeing its clear choice for competition over rate regulation, set forth March 1999 for the sunset of government regulation of

the CPST (non-basic) tier. Like some of you, I wonder whether that date will hold firm. Some in Congress would continue micro-managing the cable business. With a sound comprehensive consumer education effort by cable, criticism will be curtailed, and rate regulation hopefully will be allowed to ride off into the sunset.

Overall, my advice to the Commission on cable regulation is “weigh carefully, tread lightly.” Both the administration and Congress have been repeatedly quoted as saying “the era of big government is over.” Competition is “in.” Regulation is “out.”

So government should get out of the way and let cable and all industries upgrade technologies and finance fascinating, diverse new services and provide gainful employment to the millions of the public.

As I reflect on my career at the FCC, it is clear that there are things that government does well to serve the public interest and other things that it does poorly. Government is at its best in promoting competition, and recognizing what it doesn't know about dynamic or rapidly changing technological industries. If there's more to be done to promote competition, let's focus on correcting imperfections in the video marketplace using that force. . . not on perpetuating a failed over-complicated system of government oversight.

Conclusion

So let's review the positive factors for cable: your core business is strong and exceptionally well positioned with broadband infrastructure in place with great future capabilities. (Apparently, the phone companies appreciate cable positive potential.)

Cable can offer high speed Internet access and data processing and a two-way capability all in place without a deal up requirement.

Cable has digital transmission and telephone service capability.

You have important popular and diverse program choices for your customers.

It is now significant that you have the important local TV news, information, sport services and emergency bulletins without the troublesome negotiations or installations facing DBS.

You are authorized to pass through valid external costs for increases in programming, franchise fees, taxes or inflation costs.

Cable starts from an impressive base of over 66 million.

With competition, government regulation is becoming more out of style. Cable has resourceful seasoned leaders who, for years, have successfully withstood the many previous challenges of competition and regulation.

With all these positive aspects it is “thumbs up” for cable’s competitive future. Good luck.